## POWER AND DECLINE IN THE BRITISH AND AMERICAN HEGEMONIES: A WALLERSTEINIAN ANALYSIS

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BY

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#### **ABSTRACT**

### POWER AND DECLINE IN THE BRITISH AND AMERICAN HEGEMONIES: A WALLERSTENIAN ANALYSIS

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The concept of hegemony has been an important subject in the 1970s as the US hegemonic position has entered into a decline period. This study aims to underline that the ongoing decline of US hegemony shares substantial analogies with the decline of British hegemony in the late 19th century. As the hegemonic economy enters into contraction period, it starts to experience financial expansion. Today, the US hegemony is in the midst of such an orientation toward the *financialization*. The study analyzes the historical changes within both hegemonic cases by direct references to the world-system theory and constructs a comparative perspective in production, commerce and finance domains respectively to support these arguments.

**Keywords:** Hegemony, World-System Theory, Hegemonic Transition, Financialization, Hegemonic Decline, Capitalist World-Economy, Interstate System.

#### İNGİLİZ VE AMERİKAN HEGEMONYALARINDA GÜÇ VE DÜŞÜŞ: BİR WALLERSTEINIAN ANALİZ

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Hegemonya kavramı 1970'lerde Amerikan hegemonik pozisyonu düşüş sürecine girdikçe önemli bir konu haline geldi. Bu çalışma, halihazırda devam etmekte olan Amerikan hegemonik düşüşünün 19. yüzyıldaki İngiliz hegemonik düşüşüyle önemli benzerlikler paylaştığını vurgulamayı amaçlamaktadır. Hegemonik ekonomi daralma sürecine girdikçe finansal bir genişleme tecrübe etmeye başlar. Günümüzde, Amerikana hegemonyası böyle bir finanslaşma sürecinin tam ortasındadır. Bu çalışma, her iki hegemonik örnekteki tarihsel değişimleri dünya-sistemi teorisine doğrudan atıflarla analiz etmekte ve ortaya konulan argümanları desteklemek amacıyla üretim, ticaret ve finans alanlarında sırasıyla karşılaştırmalı bir perspektif kurmaktadır.

**Anahtar Sözcükler:** Hegemonya, Dünya-Sistemi Teorisi, Hegemonik Geçiş, Finanslaşma, Hegemonik Düşüş, Kapitalist Dünya-Ekonomisi, Devletlerarası Sistem.

To my family

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#### **INTRODUCTION**

The end of the Second World War initiated a period of unchallenged superiority for US hegemonic power until the late 1960s. Throughout this period, US power was politically, economically, militarily and culturally uncontested. It restored and reorganized the world economy in capitalist terms by building a widely-accepted framework of rules and institutions; it created a military alliance perceived as legitimate under the conditions of the bipolar interstate system; it enabled the recovery and reintegration of devastated core economies into the international monetary regime; it acquired remarkable cultural power, disseminated its culture all across the world and redefined modernity. After this redefinition of its position, the US leadership was transformed into hegemony. In other words, the U.S. hegemonic position dominated the world system in all domains and used its resources to lead the system according to its own interests.

In the late 1960s and early 1970s, this indisputable hegemonic position of US power started to go down radically. The bipolar order of the interstate system started to dissolve, the US-centered global economic system based on the Bretton Woods formulation collapsed, the capitalist world-economy witnessed the rise of new core powers, the oil shock created negative economic and political results, the hierarchy among core, semi-peripheral and peripheral countries disappeared and old strong ties among the U.S., Western Europe and Japan vanished. After these transformation years, the world-economy and interstate system took a pluralistic structure in which the US power evolved from the hegemonic country to the non-hegemonic dominant country.

This period of (re)formation in the world-system has created considerable consequences in the interstate system and world-economy. Broadly speaking, 1967/73 is perceived as the most crucial years in terms of the fortune of American hegemonic position. Two primary developments occurred in the position of

hegemonic/core power during this restructuring period of the interstate system. Firstly, the disappearance of old economic and political order eradicated the bases of American hegemony. Secondly, the US decline has not only exterminated its own roots but also created a systemic crisis in the capitalist world-economy.

In these breaking years, the radical changes in the international system and the redefinition of US hegemonic power led to growing interest in the discussion of the concept of hegemony. The social scientists focused on the causes and dynamics of US hegemonic decline and the transition in the world-system has been the main problematic to be examined. The outcome was the emergence of a comprehensive literature and research topics to study and formulate a 'theory of hegemony'.

In order to understand the US hegemonic decline, it is helpful to evaluate the current situation of U.S. with direct references to the British hegemonic decline in late 19<sup>th</sup> century within a comparative historical perspective. It is a fact that historical analogies may display variations in terms of their credibility, but making a well designed and reasonable historical analogy helps to understand the current situation of US hegemony. In this regard, the practice of historical analogy can be perceived as a tool for understanding the hegemonic changes in the history of modern world-system.

In this regard, this thesis asserts two main arguments. The first argument is that the present decline and crisis of US hegemony shares considerable analogies with the British decline and hegemonic transition from British to US hegemony. To put it another way, the current crisis and ongoing decline of the US hegemony exhibit the similar characteristics with the crisis of the British hegemony in the latenineteenth century and its decline in the early-twentieth century. In a comparative perspective for the British and American declines, the analysis of production, commerce and finance play a descriptive role. Because, as touched in subsequent chapters, a hegemonic position is established with the dominant position in economic spheres of the world-economy and the hegemonic core country occupies comparative advantages over other countries in the fields of production, commerce and finance

respectively. In this regard, the disappearance of hegemonic position follows the same cycle. When it is looked at the British case in the late 19<sup>th</sup> century, it can be observed that the US hegemony holds many similarities with the British decline. The most significantly, British decline in production, commerce and finance facilitates to make a coherent analogy with that of US decline.

The second argument is that as the hegemonic economy enters into contraction period, it starts to experience financial expansion. Today, the US hegemony is in the midst of such a process toward the *financialization*. As a reaction to the ongoing disappearance of advantages in production and commerce sectors, the hegemonic economy compulsorily becomes more inclined to the provision of financial services. In other words, for the declining hegemon, there emerges a radical transition from production and commerce to finance. The hegemonic economy unwillingly transforms itself to the finance-centric economy. In the historical process, the British economy from the beginning of late 19<sup>th</sup> century and the US hegemony since 1967/73 have displayed the classical characteristics of this restructuring of the hegemonic economy. The most significantly, this unavoidable expansion of the financial services constitutes the first phase of coming hegemonic breakdown and transition to the new hegemon.

This thesis is composed of four chapters. The first chapter constructs a theoretical perspective. One of purposes of this study is to broaden our understanding of the concept of hegemony as an integral part of International Relations (IR) discipline. Actually, there is no perfect theoretical and ideological perspective to explain the notion of hegemony. Yet, all of mainstream theories hold substantial positions. In order to formulate this theoretical analysis, the examination of primary approaches towards the concept of hegemony is essential. In this regard, Realism, Gramscian and World System approaches enjoy decisive features. Therefore, in this chapter, "Systemic Perspectives" and "Theoretical Approaches" for understanding the concept of hegemony are explained. In order to create a coherent and comprehensive framework, the Realist, Marxian-Gramscian and World System

Theories within a systematic order are explained by focusing on the concept of hegemony. This theoretical chapter clarifies how these three mainstream approaches attempt to fill the theoretical vacuum in the analysis of historical developments. It describes in what ways each of the hegemonic theories explains the concept of hegemony and how they contributes to the elaboration of the concept.

In the second and third chapters, this study presents the historical developments of both hegemons in a compatible framework and applies the hypothetical approaches to the British and American hegemonic cases. Therefore, the second chapter analyzes the hegemonic rise and decline of British power. While doing so, the transition period from Dutch hegemony to the British, the real period of Britain's hegemony and its decline process are elaborated respectively. The causes and dynamics giving rise to the birth, consolidation and downturn of the British hegemony are examined politically, economically, militarily and technologically.

The third chapter scrutinizes the historical developments in the US hegemony. Similar to the second chapter, the impact of political, economic, technologic and military dynamics is assessed in a systematic order. Hence, the interwar years (1919-1939) when the transfer of hegemony from Britain to the U.S. was realized, the real period of American hegemony and its entrance into decline process constitute the primary sections of this chapter.

In both chapters, it is held that any development experienced by the hegemonic actor affects the operation of the interstate system and world-economy. Therefore, some specific themes are touched throughout the second and third chapters. "Expansion and contraction periods of world-economy", "impacts of Thirty Years Wars", "Unicentricity and Multicentricity", "international economic and political organizations" are mentioned in these historical analysis chapters.

As accepted in the social sciences, making a comparative analysis is a useful methodical way to better understand the facts for exploring the common characteristics of different cases. Although it enjoys shortcomings in some respects, the world system theory is functional and practical to make a consistent comparative

research in the analysis of British and US hegemonic declines. In accordance with this theory, in the last quarter of 19<sup>th</sup> century Britain started to decline firstly in production, then in commerce and finally in finance. Current American situation displays the analogical similarities with that of British hegemony and world system perspective makes easier to construct a comparative framework in the US hegemonic decline.

Therefore, in the fourth chapter, it is made an analytic historical study by comparing the present situation of US economy with Britain's hegemonic economy in the late 19<sup>th</sup> century. While doing so, it is focused on three main domains separately production, commerce and finance in both hegemonic economies. The changing patterns in these three domains of the US economy with reference to the late nineteenth century British economy are examined. Thus, this last chapter of the study seeks to explore the interplay between structural trends and changes of hegemonic declines of both core powers. Finally, the facts discovered in this chapter facilitate my arguments that the ongoing decline of US power shows similar analogies with the British hegemonic decline.

#### **CHAPTER I**

## SYSTEMIC PERSPECTIVES AND THEORETICAL FRAMEWORK FOR THE CONCEPT OF HEGEMONY

One of the most distinguishing dimensions of social sciences is the absence of an overall compromise regarding the theoretical and empirical issues. This overview is also appropriate for the International Relations (IR) and the concept of hegemony. In the general sense, theories are tools that give us fundamental links to explain phenomena in a field of social science. However, it is not an easy task to present a far-reaching hypothetical framework embracing all dimensions of the idea of hegemony. Different ideological and theoretical perspectives have made it harder to constitute one and unique definition of the concept of hegemony and a generally accepted theoretical approach to the hegemonic power could not be constituted since the increase of popularity of this theme in the 1970s. In the literature of international politics, there are three primary systemic types of explanation of the concept of hegemony. These are Realist perspective, Marxian-Gramscian perspective and World System perspective. In order to put the notion of hegemony on a well-built ground, it is beneficial to examine the general characteristics of main approaches toward the hegemony.

From this vantage point, this part deals with analyzing primary approaches to understand the concept of hegemony. In this direction, firstly I make an evaluation of the notion of hegemony by focusing on Realist school and by investigating its hegemonic version in the IR. Following this, the Marxian-Gramscian idea toward explaining hegemony shall be mentioned and be given a particular attention to normative dimensions of the theory. The third overwhelming and dynamic view toward the explanation of hegemony comes from the world system theories whose

center is primarily economic and historical analysis of transformative changes since the advent of capitalist world-economy in the sixteenth century. Within this approach, conceptualization of Wallerstein's modern world-system perspective and Modelski's long cycle theory and his Political Leadership Model shall be investigated separately. After the explanation of the concepts of hegemony by shedding light on three different schools, description of the Hegemonic Stability Theory (HST) that is quite determinant in the literature on hegemony and the critiques on the validity of the theory shall be given as the last subject of this theoretical part. There are two key reasons of why I do not prefer to evaluate HST as the fourth approach in the analysis of concept of hegemony.

The first reason is that HST deals with the stability of international system which requires a dominant power to determine and impose the overall rules and principles of the system. To put it another way, HST puts an emphasis on the necessity for leadership. Realist, Marxian-Gramscian and World System perspectives seek to clarify what is hegemony and under what conditions a hegemonic state rises and declines. To describe better with the words of Keohane,

HST produces interpretative analysis for the some specific periods of international political economy. In other words, such an interpretative framework does not constitute an explanatory systemic theory, but it can help us think of hegemony in another way- less as a concept that helps us to explain outcomes in terms of power than as a way of describing an international system in which leadership is exercised by a single state (Keohane, 1984:39).

Secondly, HST does not completely originate from the specific philosophical bases in contrast to the ideological and theoretical intensity of Realism, Marxism and World System approaches. Although HST includes Liberal and Realist versions to shed light on the need for leadership in the international system, it is problematic to reconcile this theory with a particular ideological and philosophical origin.

#### 1.1 Contending Approaches to the Notion of Hegemony

#### 1.1.1 Realist Perspective

Since the 1970s by the time the leadership capabilities of the United States have begun to deteriorate, many scholars have attempted to establish a linkage between international economy and international political structure (Lake, 1993:459) and in this direction they have sought to find the ways to conceptualize the theory of hegemony and hegemonic transitions. In spite of the marginal position of historical-structural and the Marxian notions of hegemony, realist approaches to this subject have gained a fundamental importance in the discipline of IR. Specifically, the realist variant of hegemonic power constitutes one of the most comprehensive dimensions of analyzing the rise and decline of dominant actors in the international system. Charles Kindleberger's conceptualization of the Great Depression (Kindleberger, 1973) due to the lack of leadership, Robert Gilpin's (See Gilpin, 1975) attempt to compare the nineteenth century *Pax-Britannica* with the American ascendancy in the mid-twentieth century and Stephen Krasner's (See Krasner, 1976: 317-347) explanation of the relationship between the hegemony and the structure of international trade have become the first and foremost studies in the realist literature.

The realist context, within which the basic unit of analysis is the nation-states that struggle for power and act as coherent units (Keohane and Nye, 1996: 54) in a conflictual and anarchical inter-state system, holds the argument that the essential feature of a hegemonic system is the presence of a state enjoying preponderant capabilities to employ the functioning of the systemic structure. The domination in the material resources of the world politics creates an encouragement for the strongest actor, which is the candidate for fulfilling the hegemonic position in the world order to enhance its political leverage and economic wealth. In other words, the hegemon uses the material incentives to impose its power and policies to the secondary states of the international system. As a reflection of this assumption, in the realist approach, hegemon must enjoy "preponderance of material resources and

control over raw materials, control over sources of capital, control over markets, and competitive advantages in the production of highly valued goods" (Keohane, 1984:32).

However, it does not mean that the normative and ideological dynamics of hegemony are completely neglected from the level of analysis. In contrast, some scholars coming from the realist school emphasize the gravity of moral and normative aspects in addition to traditional forms of power. To grasp it better, it is reasonable to look at the description of Gilpin,

Both power and prestige function to ensure that the lesser states in the international system will obey the commands of the dominant state or state. To some extent the lesser states in an international system follow the leadership of more powerful states, in part because they accept the legitimacy and utility of the existing order (Gilpin, 1981:30 and Ikenberry and Kupchan, 1990:50-51).

Although the hegemon's material authority is a decisive ingredient in establishing and lasting the dominant position in the international system, its prestige and moral supremacy also determine the limits of its power from which the secondary states are influenced to accept the legitimacy of the hegemonic order.

Gilpin and Krasner look at the distribution of power among the states as a crucial factor to understand the continuity and stability of the international system. The presence of a hegemonic power is conducive to organize and control the other actors in the world politics and supportive for the smooth performance of the system. Gilpin, a leading theorist of in the field of hegemonic transitions, puts an argument into practice;

...the hegemonic nation resolves the question of which state will govern the system, as well as what ideas and values will predominate, thereby determining the ethos of succeeding age (Gilpin, 1981: 203). Hegemonic powers in the global system (Great Britain and the United States) have sought to organize political, territorial and especially economic relations in terms of their respective security and economic interests. They have succeeded in this hegemonic role partially because they have imposed their will on lesser states and partially because other states have benefited from and accepted their leadership...hegemonic powers may be said to supply public

goods (security and protection of property rights) in exchange for revenue (Gilpin, 1981: 144-145).

In this manner, he conceptualizes his approach on the ground that there are dynamic and key roles of the hegemonic state in the coordination and discipline of the international economic and political order. The hegemonic state becomes the pioneer actor in establishing the system and forges a new international architecture in a particular age that is more appropriate to its vital interests. In this formulation, while creating a new international system, the hegemonic power resorts the use of coercion, sanctions and inducements to realize its aims (Ikenberry, 1989: 378). Michael Motiff clarifies this situation by saying that "with a sole hegemonic power, the rules of the game can be established and enforced. Without a hegemonic power, conflict is the order of the day" (Quoted in Nye, 1994: 46).

Krasner who is one of the influential figures in the formation of realist concept of hegemony describes the hegemony as a system in which

there is a single state that is much larger and relatively more advanced than its trading partners. The costs and benefits of openness are not symmetrical for all members of the system. The hegemonic state will have a preference for an open structure. Such a structure increases its aggregate national income. It also increases its rate of growth during its ascendancy- that is, when its relative size and technological lead are increasing. Further, an open structure increases its political power, since the opportunity costs of closure are least for a large and developed state (Krasner, 1976: 322).

Charles Kindleberger brings the term of hegemony into agenda by referring to its coordinator responsibility and leadership role in the world economy. In other words, the hegemonic actor uses "its influence to create the international economic system and subsequently to perform a number of necessary economic functions to keep the system working efficiently" (Gilpin, 2002: 166). Focus of his approach to hegemony is the willingness of the leading state to supervise and control the global trade and financial networks. In his book, *The World in Depression*, the language of 'public goods' is a concept to explain the working of international regimes

under the umbrella of a hegemonic state. The hegemon provides the collective good of global stability.

The construction and consolidation of hegemonic order promotes the well functioning of the market system and hence creates a more favorable economic environment for the growth of the rest of the system. The investments of hegemonic power abroad finance the deficits of developing countries and its imports extend the scale of other countries' economies. The dissemination of the use of technology from the hegemonic power to the secondary countries triggers the industrialization and economic growth of those states. In the realist vision, this complex mission of the hegemon in the global economic system is a 'cement' to supply the continuity of the system without disintegration (Gilpin, 1987: 75-76).

In contrast to the other historical-structural versions of the study of hegemony, the realist theorists recognize the only two states as the hegemons in the modern world. Historically, the first instance of the hegemonic power was Britain that turned out to be the dominant actor from the Napoleonic Wars and that lasted its supremacy until the outbreak of the First World War. It held sway in military, political, cultural and economic domains in the worldwide with a commitment to the free trade and economic liberalism, which was the natural consequence of the advent of industrialism. Following the end of the era of *Pax Britannica*, the United States shouldered the hegemonic responsibility from the post-World War II period until the relative erosion of its dominant position in the 1970s. It performed as source of a stable international political and economic order by means of provision of 'collective goods' in economics, security and international organizations.<sup>1</sup>

The realist paradigm in using the concept of hegemony exhibits one of the most resourceful instances of the theories toward the examination of historical

<sup>&</sup>lt;sup>1</sup> Reflecting this position, Gilpin does not categorize the Dutch dominance in the seventeenth century as a hegemonic order by saying that "although Holland certainly was the leading economy, it did not exercise influence over the international system comparable to Great Britain in the nineteenth and the United States in twentieth century. The seventeenth century, it should be recalled, was the height of the first mercantilist era", see Gilpin, 1987, pp. 73-74.

changes in the international system. Over the past three decades, the realist writers have attempted to indicate that hegemons in the historical progress have become the guarantor of the system to keep its working efficiently. In the realist tradition, to become the guarantor of the international system, the hegemon must enjoy the *multidimensional* and *multifaceted* power resources in military, politics, economy (industry, production, finance and trade), ideology and culture. To put it better, the hegemonic actor must embrace all dimensions of power. Hence, the realist concepts of hegemony share a common characteristic: the hegemonic state must possess "structural power" (Loh, 1999). However, in accordance with the hegemonic succession theories, every hegemonic state must enter into the period of decline as a result of the rise of another more efficient state which bears the responsibility of the leadership. Thus, realism that can be qualified as the oldest theoretical approach to the explanation of IR has some basic hypothesizes in understanding the theory of hegemony.

#### 1.1.2 Marxian-Gramscian Perspective

In 1983 Robert Cox pioneered a new conceptualization of international politics that contends that the works of the Italian Marxist theorist Antonio Gramsci are applicable to the level of world order and that his understanding of hegemony constitutes an alternative theoretical approach to the other Marxian views (See Cox, 1993: 49-66). Although Gramsci did not develop a comprehensive and far-reaching framework regarding international politics, his ideas have become quite descriptive in the discipline of IR. Particularly, over the past several years his concept of hegemony has gained a growing attention among the theorists of IR.

The core of Gramscian sense of hegemony can only be understood by analyzing the role of ideas, culture and ideology. In this way, the richness of Gramscian perspective is that hegemony must include both *normative* and *material* dimensions of social relations. It does embrace not only the analysis of behavioral power but also of structural power (Gill and Law, 1991: 77).

Coercive domination and consensual domination are two crucial components in the Gramscian concept of hegemony. It should not be missed that Antonio Gramsci developed his understanding of hegemony for "the relations among classes and social groups within a nation" (Robinson, 1996: 23). In this direction, Gramscian hegemony may be defined as "a relation between classes in which one class or fraction of a class exercises leadership over other classes and strata by gaining their active consent" (Robinson, 1996: 21).

Although the conduct of power can be lasted by the use of both consent and coercion, the policies implemented in the form of consent create the most stable policies. To put it strictly, the Gramscian analysis entails the use of power and hegemony within a consensual form. It is worth noting that Gramsci's approach to hegemony focusing on consent is reached by means of 'intellectual and moral leadership'. Specifically, 'ideological hegemony' is required in order to take the supports of other powerful states in IR. In the absence of the ideological hegemony the system constructed under the umbrella of a dominant actor will be extensively weakened (Gilpin, 1987: 73). Unless other actors in the hegemonic order accept the leadership of hegemonic power as appropriate to their own interests (in terms of both political and economic), the maintenance and preservation of the hegemonic system cannot be provided securely. On the contrary, if other powerful states in the international arena view the hegemonic state as legitimate, the continuation of the order will be easier and dominant actor will not face with a counter-hegemony. Broadly speaking, the hegemony achieved by consensual means universalizes its norms and rules and thereby set up the political, ethical and ideological domination (Germain and Kenny, 1998: 17). In this direction, the moral and intellectual leadership mentioned above play a vital role in establishing the hegemony. The more hegemon's culture and ideology are attractive, the more other strong actors will willingly follow it (Nye, 1990: 32-33).

The Gramscian concept of hegemony does not exclude the material dynamics from its level of analysis. In contrast, as he expressed "ideas and material conditions

are always bound together, mutually influencing each other, and not reducible one to other. Ideas have to be understood in relation to material circumstances" (Ikenberry and Kupchan, 1990: 51).

Gramsci devotes a particular emphasis to the creation and continuation of world order as well. In order to constitute universal norms, Gramsci reminds the international institutions and mechanisms. It is a well-known fact that international institutions and mechanisms are created and developed mainly by the hegemonic state. International organizations under a hegemonic world order probably facilitate the conditions of the hegemon. At this point, once more the notion of 'ideological hegemony' is underlined in the Gramscian School since international organizations and rules introduced by the hegemon become cooperative in legitimating the world order (Cox, 1993: 62).

The application of Gramscian concept of hegemony to the discipline of IR is clearly realized by the works of Robert Cox. Following the insights of Antonio Gramsci, Cox defines hegemony in the following way;

Dominance of a particular kind where the dominant state creates an order based on ideologically on a broad measure of consent, functioning according to general principles that in fact ensure the continuing supremacy of the leading state or states and leading social classes but at the same time offer some measure or prospect of satisfaction to the less powerful (Cox, 1987: 7).

By definition, while adapting Gramsci's view of hegemony into IR, Cox appraises a hegemonic order as that is "universal in conception, i.e., not an order in which one state directly exploits others but an order in which most other states could find compatible with their interests" (Cox, 1993: 61). He moves around the Gramscian concept of hegemony by contending that this world order comes into reality by means of ideological and cultural dominance in consensual sense. Therefore, the establishment of social hegemony in the domestic structure of a state is one of the main prerequisites in the establishment of world hegemonic order. As one state strengthens and secures its strength socially at home, an "expansive energy" occurs to flow into the world scale (Cox, 1987: 149). Such expansion of social

hegemony towards the world creates hegemonic world order. In this regard, Cox asserts that the *Pax Britannica* in the nineteenth century and the American domination in the second half of twentieth century are the two instances of hegemony by which both states built liberal international system and created liberal institutions and rules that were effective and widely accepted.

Cox rejects the idea that hegemony is not only political order in the system composing of sovereign states. For him,

It is an order within a world economy with a dominant mode of production which penetrates into all countries and links into other subordinate modes of production. It is also a complex of international social relationships which connect the social classes of different countries. World hegemony is describable as a social structure, an economic structure, and a political structure; and it cannot be simply one of these things but must be all three (Cox, 1993: 61-62).

In addition, the continuity of world hegemony is highly dependent on "universal norms institutions and mechanisms which lay down general rules of behavior for states and for those forces of civil society that acts across national boundaries" (Cox, 1993: 62).

The Gramscian approach has also produced new versions in the IR discipline in order to describe the concept of hegemony. Following this tradition, Alan W. Cafruny attempts to formulate an approach in accordance with the views of Gramsci and seeks to apply it to the US hegemony (See Cafruny, 1990: 97-117). In this way, he analyzes three categories of hegemony; integral hegemony, declining hegemony and minimal hegemony. Integral hegemony refers to the period of maturity of hegemonic position in which dominant actor is the strong and well-organized in the globe. In the process of declining hegemony there emerges a severe and intensified struggle between the dominant state and other states in terms of maintenance of interests in the system. This period may experience some disintegration in the hegemonic order. Cafruny's last category is minimal hegemony in which the dominant group (or state) rejects to harmonize its interests with those of subordinate

groups (or states) and hegemonic actor "wishes to dominate, not to lead" under such a system (Cafruny, 1990: 105-106).

Although they give primacy to the normative dynamics in establishing hegemony, the Gramscians always insist upon the fact that hegemony is not completely an ideological phenomenon. As Anthonio Gramsci points out "there can be no hegemony without decisive nucleus of the economics" (Sim, 2004: 18). The social forces seek to achieve control in the society as a result of ideological and cultural struggle but political and economic activities play a decisive role in this process. That is to say, the struggle to gain control (or hegemony) necessitates a long and continuous effort, which is primarily conducted through economic and political institutions of civil society. The revolutionary forces have to control civil society in order to take the control of state. Without the political and economic supports, such ideological struggle cannot be easily continued by the revolutionary forces.

Thus, according to Gramscian perspective, hegemony has a meaning to examine the relation of forces in a given society. As touched above, in the Gramscian idea a stable hegemonic order refers to one where consent is prevailing rather than that based on coercive actions and the primacy of consent shapes the relations between classes themselves and between the state and civil society (Gill and Law, 1989: 476). As long as the hegemon controls the ideological mechanisms and devices of power within a consent manner, it also determines the way to which other actors do obey its policies (James and Lake, 1989: 6).

#### 1.1.3 World System Perspectives

## 1.1.3.1 Wallerstein's Modern World-System Theory and His Concept of Hegemony

The modern world-system perspective is one of the most significant structuralist theories in investigating the historical changes and hegemonic transitions in the modern world. The approach conceptualized by sociologist Immanuel Wallerstein presents a theoretical framework to understand the rise of capitalist world economy after a series of crises of feudal system in Europe. He seeks to find the answer of the how the Western Europe emerged as the dominant economic, political and military power in the period between 1450 and 1670. In overall sense, this approach differs from other leading theories in that modern world-system model is primarily based on the intense analysis of historical systematic changes in the economic system as a whole. Before evaluating the hegemonic conceptualization of Wallerstein's modern world-system theory, the general features of the perspective shall be investigated below.

Wallerstein's macrosociological historical perspective aims to analyze the history and operation of international political economy in terms of the modern world-system. He conceptualizes its approach in the sense that "if there is one thing which distinguishes a world-system perspective from any other, it is its insistence that the unit of analysis is a world-system defined in terms of economic processes and links, and not any units defined in terms of judicial, political, cultural, geological etc., criteria" (Quoted in Tayfur, 2003: 3). One of the distinguishing dimensions of the modern world-system is its primary concentration on assessing the contemporary developments within a historical framework. In specific terms, the historical changes and socio/economic transformations can be explained by focusing on concepts of core/periphery relations which repeat itself in the course of centuries (Gowan, 2004: 471). Hence, all the main variants of the world system theories reconcile upon the assertion that since the advent of capitalist 'world-economy' in the sixteenth century recurrent patterns of core-periphery relations have dominated the inter-state system.

In the context of the theory, the world-system approach pays more attention to the explanation of three primary subjects. Firstly, it makes an investigation of the structural tendencies and changes in the world-economy and interstate system.

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<sup>&</sup>lt;sup>2</sup> Wallerstein makes a difference between the concept of "world-economy" (économie monde in French) and the concept of "world economy" (économie mondiale). The former refers to "an economy in which ensuing extensive and relatively complete social division of labor with an integrated set of production processes which relate to each other through a market". The latter refers to "a series of separate economies which are national in scope" (Wallerstein, 1984: 13).

Secondly, it initiates to analyze the recurrent cycles across the time. As the last point, the world-system theory seeks to identify the reasons behind the rise and decline of core powers and transitions in the core zone (Shannon, 1989: 113). In this process, the main unit of analysis is the world-system and it gives a primacy to the impacts of global dynamics of the capitalist world system.

One of the most original issues raised by Wallerstein is the presence of a hierarchy that dominates the structural positions of states in the world-economy. In general terms, the world-economy is composed of three different categories: Core, semiperiphery<sup>3</sup> and periphery. In economic, political and cultural terms, the core, periphery and semiperiphery have a complex linkage in the capitalist worldeconomy. For Wallerstein, before the formation of capitalism as a mode of production, world-economies were instable and inclined to "disintegration or conquest by one group" (Chirot and Hall, 1982: 84). However, in the late fifteenth and early sixteenth centuries, a different and new European world-economy, capitalist in nature, came into existence (Wallerstein, 1974: 15). In the following period, the capitalist oriented world-economy began to diffuse in many areas of the West European countries. The advent of capitalist world-economy based on the production for maximum profit created a core that contains large-scale manufacturing with the use of technology and skilled labor. Yet, in order to endorse its economic structure, the core needed peripheral areas to which its surplus would be exported. As an initial consequence of this process, "in the periphery, technology stagnated, labor remained unskilled, and capital rather than accumulating was withdrawn" (Chirot and Hall, 1982: 85). In the cycles of processes within the capitalist world-economy, the peripheral zones became primary sources for the core to buy cheap raw materials in exchange for manufactured goods. Explicitly, the core established a dominant position over peripheral states by means of unequal trade relations. Therefore, the gap between core and periphery inevitably extended and would continue to extend further.

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<sup>&</sup>lt;sup>3</sup> For an extensive discussion of the concept of semiperiphery, see, Tayfur, 2003, pp.1-38

Wallerstein also makes a third categorization so-called semiperiphery, which intermediates between the core and periphery in economic terms. Semiperipheral areas are either core regions in decline or peripheral regions aiming to improve their competitive capability in the capitalist world-economy. The capitalist world-economy, according to Wallerstein, is a dynamic system changing over time. The transitions among core, semiperiphery and periphery are important determining ingredients of the modern world-system. In other words, mobility in the world-economy is not impossible. Some core regions in this hierarchical structure may fall into semiperiphery such as Spain in the seventeenth and eighteenth centuries or some regions may rise to core as modern Japan did in the second half of the twentieth century.

In the recurrent cycles in the world-economy, the notion of hegemony is the key factor in clarifying modern world-system theory. The explanation of 'the rise and decline of hegemonic actors' constitutes a noteworthy dimension of this historical-structural approach. It is not surprising that the unequal and uneven economic relations in the hierarchical modern world-system create a single hegemonic actor that has an economic preponderance comparing to second running-core states in the progress of history. Historically, the leading states have tried to reach a hegemonic position in the interstate system. In this manner, in Wallerstein's words, hegemony refers to.

A situation in which the ongoing rivalry between the so-called "great powers" is so unbalanced that one power is truly *primus inter pares*; one power can largely impose its rules and its wishes (at the very least by effective veto power) in the economic, political, military, diplomatic and even cultural areas. The material base of such power lies in the ability of enterprises domiciled in that power to operate more efficiently in all three major economic arenas- agro-industrial production, commerce and finance (Wallerstein, 1984: 38-39).

As it is being understood from Wallerstein's definition, the simultaneous superiority in productive, commercial and financial spheres is diagnostic in deciding the rules and norms, which enable the hegemonic power to maintain its national and

imperial vital interests. In the modern world-system perspective, hegemony is mainly achieved through economic means. Namely, hegemony means a state's preponderance on the world-economy. However, it does not mean that military and cultural components lay the outside focus of hegemonic analysis. Military strength of hegemonic state can be measured by its sea (now sea/air) forces that must become the largest one of the world. Yet, it also has to hold a strong land army to deter a land-based challenge. In the cultural domain, it occasionally attempts "to reinforce advantages of their producers and to legitimize their role in the inter-state system by imposing their cultural dominance" (Wallerstein, 1984: 17). Thus, in order to construct its own world order, as Arrighi expresses, hegemonic states must have 'something extra' (See Arrighi, 1993).

The achievement of hegemonic position is firstly provided by the establishment of an efficient industrial productivity arising from the labor-saving technological innovation. Once productivity advantages gained by the hegemonic power, it attempts to impose the ideology and economic policy based on global liberalism and free trade through which dominant power can penetrate into the markets of other core states. Being the most efficient-cost producer in the world production market makes the hegemonic actor as the center of international capital and for that reason it becomes leading financial center in the system as well (Boswell and Sweat, 1991: 128).

A reverse cycle is seen in the downward of hegemonic status. The penetration into world market of hegemon, as a result of its over-extended production, makes tighter the internal labor market and that brings about the rise of production costs comparing to those of other core powers. Additionally, the dissipation of new production techniques from hegemonic state to the other core states creates favorable economic conditions for the contending powers in the world-system. This process makes less preferable the investing in domestic markets and an outward of capital comes into reality. Decline of market shares in the world trading system as an impact of spread of new and cheap production techniques gives rise to a rebirth of

protectionist measures. Lost of financial superiority comes as the final indicators of hegemonic decline (Boswell and Sweat, 1991: 128).

There are many dynamics and factors giving rise to the attainment of hegemonic position. The geographical advantages and proximity to the world trade zones, the developed organizational structure in the conduct of internal and external affairs, the accessible raw materials, easy achievement of capital sources, the state's supportive strategy for the economic growth of capitalist class and in response the positive stance of the capitalist class in the economic development in the country as a whole (Shannon, 1989: 122).

At the peak of their powers, the hegemonic core powers espouse and seek to impose the "global liberalism". They are tended to advocate the unrestricted flow of capital, goods and labor in the world-economy. Since the hegemon is in an unchallenged position economically and militarily during the period of dominance, it wants the diminishment of restrictive policies from other core and non-core states. The hegemonic actor maximizes its economic interests through the free flow of production factors due to its clear-cut comparative advantages in production, commerce and finance. As Shannon points out, global openness gives an extremely important chance to the hegemonic economy in order to extend export markets, investment opportunities and overall economic activities. However, the domestic market of the hegemon affects minimum from the foreign competition of other core economies (Shannon, 1989: 125-126).

In addition to that assumption, the hegemonic state tries to establish direct political and economic leverage in the peripheral zones by creating colonies or client states. The foundation of a direct control over these undeveloped areas increases the profit coming from economic transaction since the hegemonic actor conducts commercial activities and investment opportunities in these exploitable zones (Shannon, 1989: 126).

Below in the Table 1.1, according to Wallerstein's historical perspective, there are three instances of hegemony in the modern world-system: the United

Provinces in the mid-seventeenth, the United Kingdom in the mid-nineteenth, and the United States in the mid-twentieth centuries. In all three cases, the hegemonic position in the world-system was attained by a thirty-year-long war in which all competitor powers involved and in which the hegemon undertook a vital mission in winning coalition against challenger states. The Thirty Years War (1618-1648) promoted the Dutch domination, the Napoleonic Wars against Revolutionary France (1792-1815) created the British hegemony and the Two World Wars (1914-1945) led to rise of American power (Wallerstein, 1984: 39-42). Similarly, in all three cases, the hegemon reorganized the world-system centered-upon its image; the Dutch evolved around the mercantilist ideas, the Britain espoused an industrialist strategy and finally the United States promoted consumerism (Taylor, 2002: 286).

Table 1.1
Wallerstein's View of Hegemony

Hegemony	World War Securing Hegemony	Period of Dominance	Decline
Dutch	Thirty Years' War, 1618-1648	1620-1650	1650-1672
British	Napoleonic Wars, 1792-1815	1815-1873	1873-1896
American	World Wars I and II, 1914-1945	1945-1967	1967-

Source: (Nye, 1990: 44)

In all three cases, the period of dominance is generally rare and short since the emergence of capitalist world-economy. For the Dutch example, the period of full hegemony lasted 30 years (1620-1650), the British superiority took a half-century (1815-1873) and the American case nearly a quarter (1945-1967). Nevertheless, the ends of such short periods of full hegemony do not imply the total collapse of hegemonic core actor.

In the decline period, hegemonic power is still a major core power, but it has lost its overwhelmingly predominant economic and military advantage. During "declining hegemony" the hegemonic power (while still the most militarily powerful state in the core) experiences a steady erosion of its economic and military position and faces increasing challenges to its power from other states (Shannon, 1989: 121-122).

After the beginning of decline period, generally two core powers come into the political and economic scenes as the "contenders for the succession". These challenger actors were France and England after the Dutch hegemony; Germany and U.S. after *Pax-Britannica* and today China and the European Union following the American decline. In this downturn process of hegemonic system, the military conflict may escalate as a whole. Such increase in the military rivalry results in the breakout of the total world war including the contending core powers. The outcome is "the final exhaustion of the old, declining hegemonic power, even though it may be part of the winning alliance" (Shannon, 1989: 128). In the historical process of hegemonic downturn, the old hegemonic actor comes into the position of "junior partner" (in Wallerstein's terms) of the new hegemonic actor for example the United Provinces as the primary partner of British hegemony and Britain as the primary partner of the U.S (Wallerstein, 1984: 42-43).

The impact of hegemony on the domestic structure is also related to the rise and decline of hegemonic power. The economic expansion under the protective umbrella of dominant core power increases the economic wealth of business classes and provides the accumulation of capital in their hands. This enables the rise of welfare of society and reduces the possibility to break out of social upheavals. In the reverse picture, the downturn of economic growth rates and the appearance of pluralism in the world-economy lead to the occurrence of socio-political instabilities (Shannon, 1989: 129).

In consequence, Wallerstein's modern world-system theory is best appropriately conceived as the reinvestigation and reinterpretation of capitalist world-economy with the well-designed combination of political and economic processes within a historical perspective. The uneven economic development as one of the basic characteristics of capitalist world-economy produces a single core power which establishes preponderance over other core-states in a given period in the

world-system. In this direction, Wallerstein's concept of hegemony is a decisive element in explaining the historical transitions in the modern world-system.

#### 1.1.3.2 Modelski's Long Cycle Theory and the World Power Context

In the preceding section, Wallerstein's modern world-system approach is evaluated by focusing its formulation of hegemony in the world-economy. Another significant school associated with world system theories comes from George Modelski's long cycle perspective. In the spirit of this approach there is the theoretization of global polity by investigating the recurrences of long cycles across time. The 'cycle' is defined by again Modelski as "a recurrent pattern in the functioning of a system" (Modelski, 1978: 214). His one of the most advanced arguments is that acquiring to the position of world power (which refers to the term of 'hegemony') and occurrence of global major wars are interrelated phenomenon and major developments in the global politics are shaped around the long cycles as recurring patterns. For Modelski, world systems refer to "a device for viewing the world's social arrangements as a totality, and for investigating the relationship between world-wide interactions and social arrangements at the global, regional, national and local levels" (Modelski, 1987: 20). Like Wallerstein's analysis, Modelski also argues that the world system came into existence around the sixteenth century and above all the global system is composed of local, national, regional and global levels.

In the context of Modelski's approach to international politics, the topmost units in the world system are the global powers. The organization and management of the system and supplying the continuity of order by establishing alliances and installing military forces in the strategic regions of the world are under the responsibilities of global powers. He distinguishes three types of global powers; "the world power" (since the sixteenth century Portugal, Netherlands, Britain and the

United States), "the challenger" (France, Germany and the Soviet Union) and "other global powers". 4

Table 1.2

Modelski's Long Cycles of World Leadership

Long Cycle	World Power	Global War Period	Primary Challenger	Primary Opposition to Challenger	World Power Successor
I. 1517- 1608	Portugal (to 1580)	1585-1608	Spain	Netherlands England	Netherlands
II. 1609- 1713	Netherlands	1689-1713	France	Netherlands Great Britain	Great Britain
III. 1714- 1815	Great Britain	1793-1815	France	Great Britain	Great Britain
IV. 1816- 1945	Great Britain	1914-1918 1939-1945	Germany Germany	U.K./U.S. U.K./U.S.	United States
V. 1946-	United States				

Source: (Thompson, 1983: 106)

The table illustrates that Modelski accepts historically four states as the world leader in the world system since its birth in the sixteenth century. In both theory and practice, the phenomena that should be analyzed is the necessity of oceanic criteria to establish a worldwide domination. The hegemonic position is achieved through the supremacy in the oceanic power and evidently the world power, which has dominated the world politics in turn, has been the oceanic power (Modelski, 1987: 41).

As it is clarified above, the world power is the primary actor in the global politics. As a result of a global war, a world power *or* hegemon dominates the political and economic spheres with an obvious prevalence in terms of naval power of world total. At the heart of Modelski's concept of hegemony, there lays the unchallenged superiority in the domain of oceanic power as a compulsory prerequisite of putting a global position into place. For Modelski, the world power is he "provider of global services" that guarantee the smooth coordination and functioning of the global system. These global services can be summarized as the

<sup>&</sup>lt;sup>4</sup> For a discussion of Modelski's approach, see, Tayfur, 2000, pp.1-34

formation of political and military alliances, the solution of global crises according to world power's own interests, the maintenance of its global position through military operations, the determination of overall rules of global economic order and the establishment of technological innovation ability (Tayfur, 2000: 13). As an additional point, in the long ascent of the hegemonic role, the world power seeks to place free trade at the global level and prevent major wars that may challenge the leadership status of hegemonic power.

According to Modelski, the capabilities and characteristics of a world power to create its own economic and political order in the global scale may be convened under five headings; (i) a protected and a favorable insular geographical position to observe the developments of the world system; (ii) a secured, stable, pluralistic and coalition intended society; (iii) an effective and well-organized political structure with having a strong and wide-ranging naval force in order to extend its influence in the world; (iv) a leader and competition capable economy with a dominant occupation in foreign trade; (v) ability to innovate for the world problems (Modelski, 1987: 20 and Tayfur, 2000: 13).

The challenger power is another significant actor in the global world system. Through mobilizing its power resources economically, politically and militarily, the challenger pursues a competitive strategy against the dominant status of world power. In the light of historical experiences, it is obvious that no challenger was successful in reaching the position of world power. There are some specific causes behind the failure of challenger powers. These are big but uncompetitive economic structure relative to the world power, massive but questionable army in terms of military effectiveness and finally inharmonious and problematic domestic structure (Tayfur, 2000: 13-14).

In summary, Modelski's long cycle approach within world system context presents a detailed framework to comprehend the interactions and cycles in the global politics which repeatedly pave the way for the formation of world powers. The hegemonic power comes into the world leadership as a result of a global war

from which it emerges with an obvious supremacy in naval force. In the following period, the world power provides the order and stability in the global level by placing the principles of free trade.

After the explanation of three leading approach about the concept of hegemony, it is fruitful to present a brief comparative framework. Firstly, which factors are influential and determinant in the formation of hegemony? In terms of the acquirement of hegemonic position, all theories focus on different domains. Realism emphasizes the importance of political and military power, Gramscian theory attributes the establishment of hegemonic status to the normative and ideological factors, in the context of world system perspective, Wallerstein attaches the considerable importance to the economic dynamics and Modelski's long cycle approach underlines the necessity of a strong navy power in forming the hegemonic position.

Secondly, which powers are recognized as hegemonic powers? For the realist and Gramscian notion of hegemony, there are only two hegemonic powers in the history: Britain and U.S. In the view of Wallerstein, in addition to U.K. and U.S., the United Provinces is accepted as the hegemonic/core power. Modelski adds Portugal in his context of global system as the fourth hegemon.

Thirdly, what are the basic relationship between the system and hegemony? The realist tradition argues that the presence of a hegemon is imperative for the smooth functioning of the international system. Gramscians make a separation between consensual domination and coercive domination in the continuation of hegemonic status. In this regard, the policies in consensual sense produce more stable world order for the hegemon. Wallerstein attempts to analyze the systemic-economic changes within a historical perception and Modelski highlights the occurrence of recurrent long cycles since the advent of capitalist mode of production. Modelski's perspective distinguishes significantly from that of Wallerstein in that while the theory of modern world-system takes the world-economy as the basic unit of analysis, in Modelski's context the global political systems are the basic unit of

analysis. Thus, despite the diversities in the analysis level of problems from Wallerstein's idea, the theory displays the close propositions in how and when the world system emerged with recurring patterns of hegemony and the impacts of major wars in the occurrence of hegemonic states.

#### 1.1.4 Hegemonic Stability Theory

The debate over whether the American hegemonic position has deteriorated and waned in the international political economy since the 1970s or its structural power resources are still effective to sustain the bases of US hegemony in worldwide has given rise to the redefinition and reconceptualization of the role of hegemonic power in the global system. The problematization of US decline has grown within the context of the hegemonic stability debate. In this regard, the Hegemonic Stability Theory (HST) set initially forth by Charles Kindleberger in his book The World in Depression, 1929-1939 (Kindleberger, 1973) to explore the deep causes of the Great Depression and international economic disorder of the early 1930s. He argued that a political leader is required for the creation of the international liberal economy and to provide the efficient working of the system. About ten years later, his arguments were applied to IR by a number of American political scientists (firstly by Robert Keohane) to clarify the decline of the United States in the world political and economic system. Many scholars and theoreticians have espoused some versions of the HST<sup>5</sup> and it has become widely accepted epistemological framework to understand the dynamics of the international economy.

In its center of the theory, it is contended that the overwhelming dominance of one country is necessary to ensure an open and stable world economy. The existence of such a hegemonic power provides the coordination of international

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<sup>&</sup>lt;sup>5</sup> Although the theory appeared as an embryonic form in Robert Gilpin's "The Politics of Transnational Economic Relations" in Robert O. Keohane and Joseph S. Nye's, *Transnational Relations and the World Politics* (Cambridge: Harvard Univ. Press, 1972); its comprehensive formulation was realized by Charles Kindleberger's *World in Depression*, 1929-1939. For the other variants of this approach, see Gilpin, 1975; Gilpin, 1981; Krasner, 1976; Keohane, 1984; Keohane, 1996; Lake, 1984 and Lake, 1984.

economy so that other countries feel secure enough to adopt the basic mechanisms of world system. In other words;

...the international economic and monetary system needs leadership, a country which is prepared, consciously or unconsciously, under some system of rules that it has internalized, to set standards of conduct for other countries; and to seek to get others to follow them, to take on an undue share of the burdens of the system, and in particular to take on its support in adversity by accepting its redundant commodities, maintaining a flow of investment capital and discounting its paper (Kindleberger, 1973: 28).

On the contrary, the downward of the hegemony goes hand in hand with the socio/political instability, economic closure, isolation and rise of protective measures in the national realm.

Basic argument elaborated by Kindleberger to explain the occurrence of the socio/economic crises years of the early 1930s was that although Britain was willing to sustain its hegemonic role in supplying the stability of international monetary order in the post-World War I era, it did not have the economic power to bear such a responsibility and that the United States which emerged from the war as dominant economic power was unwilling to take on the mantle of economic leadership in the areas of trade, finance and money (Gilpin, 1987: 130 and Gill and Law, 1991: 47).

The hegemonic actor must become also a 'crisis manager' to maintain the stability of the international economy. To put it another way, in the cases of economic troubles the hegemon should be ready to react rapidly against threats to the world economy in order to keep the system working efficiently. At this point, Kindleberger clarifies the function of the hegemonic state to be 'lender of last resort' and as a result of this duty, the hegemonic economy may moderate the large-scale financial crises. Adversely, the failure in the crisis management may give rise to the collapse of international economic order (Gilpin, 1987: 79-80).

In the general sense, as Kindleberger expresses, "...for the world economy to be stabilized there needs to be a stabilizer –one stabilizer" (Kindleberger, 1973: 304). To justify this argument, hegemonic stability theorists assert that throughout the

nineteenth century, the Great Britain assumed the role of hegemony centered upon the openness of markets and international trade, unrestricted flow of capital, the growth of multinational corporations and in the economic and political spheres, a general stability characterized at least Europe. In the following period of relative decline of British power and the World War I brought an end to both the hegemonic role exercised by England and the conditions that had promoted it (Milner, 1988: 3). In the post-1945 epoch, the United States has carried out the same hegemonic role in the world political economy until the beginning of a number of transformative events in the early 1970s that harmed its unchallenged status.

The one of key concepts in evaluating the theory is related to 'liberalism in the international economy' that refers to the principle of free trade, non-discrimination and market economy. The hegemon must promote other states to initially lose and then eliminate the trade barriers in front of the smooth functioning of free trade economy. According to HST, the dominant power prefers the international liberal order in the economic area by which it gains most from the free flow of commodities and "the hegemonic state has both the motivation and the capability to create and maintain open regimes" (McKeown, 1983: 74). Central to this is the hypothesis that the leader of international economy encourages other states to follow the principles of trade liberalization and uses its power to influence the international monetary system in accordance with its own political and economic interests.

Briefly, in using HST, to be considered as hegemon over the world political economy, the candidate actor must have capability to implement the rules of the international system with an adequate willing to take on the duty as organizer and coordinator of the world politics and a commitment to an order that is recognized as reciprocally beneficial to other major states. In particular, while assuming the hegemonic role, the dominant power must have a large and growing economy, at least initially a leading position in the technological and financial sectors, and lastly a

comprehensive and influential military power to endorse the political projections in the globe.

Despite the presence of a compromise on the general identification of the theory, the arguments put by the theorists of hegemonic stability do not always present integrity in the explanation of this approach. Hypothesizes concerning HST are composed of the two traditional schools; liberal and realist. As Richard Higgott emphasizes the major point of difference between the realist and liberal versions of the theory originates from the 'self-regarding' and 'other-regarding' perspectives to identify the actions of dominant actor in the world political economy (Higgott, 1994: 159). Therefore, HST, in both its liberal and realist versions, has caused a comprehensive discussion to study the international political economy.

Although he is originally the advocate of realism in the world politics, Kindleberger makes a liberal interpretation of the theory by putting emphasis on the other-regarding characteristic of the hegemon. He concentrates on the supply of collective goods (such as free trade or monetary stability) in order to realize the stability in the international economy by referring to 'benevolent' (James and Lake, 1989: 3) characteristic of the hegemon. Conversely, in the case of instable conditions, small disruptions (e.g., the shock market collapse of 1929) create catastrophic costs (e.g., the Great Depression) (Lake, 1983: 519). In his point of view, (it is also identified as the *optimistic* vision) the hegemonic power establishes an international economic order based on the principles of liberalism for cosmopolitan reasons. In contrast to the realist assumptions, the liberal advocates of HST argue that the hegemonic power is primarily economic. In the context of liberal version of the theory, Kindleberger's stance is a revision of realism. He clearly demonstrates the liberal international system by emphasizing the unselfish causes and motives of the hegemonic state. In his conceptualization, it is deemed necessary for the hegemon to shape the international system in the liberal nature.

In the long run, the provision of collective goods by the dominant state may produce a 'free-riding' problem (small and middle states are free riders in this formulation). Stated in the simple terms, this phenomena refers to a situation in which "other states in the system can benefit from the regimes at least as much as the hegemon, but may have little incentive to contribute to these costs...[and]... this contributes to the erosion of hegemonic power over time, and eventually a declining willingness and ability of the hegemon to provide the bulk of the resources for regime maintenance" (Walter, 1991: 20-21). This evolution of the hegemonic system towards the decline finally associated with the occurrence of instability in the international political economy.

Conceivably, the most controversial aspect of the HST is its argument that the decline of dominant power from the world hegemony goes hand in hand with the intensification of disorder in the system and descent of the liberal world economy. At this point, Robert Keohane maintains another liberal description of the theory. The major point of difference in Keohane's methodology from the other theorists of HST is his assumption that in the absence of the hegemon, cooperation among the major powers may provide the continuity of international liberal order. Non-hegemonic cooperation is not impossible since international regimes make this cooperation possible. In this sense, for him, realist approaches put some limits to 'mutual interests in world politics' (Keohane, 1984: 62).

Robert Gilpin and Stephen Krasner, the representatives of the 'self-regarding' realist perspective (sometimes so-called the *pessimistic* interpretation) in evaluating HST, give a great emphasis on the self-interest of the dominant state (See Gilpin, 1987; Gilpin, 1981 and Krasner, 1976). In this context, hegemony is assessed as simple dominance, imposed by a hegemonic state seeking revenue. 'The pursuit of relative gains' (Higgott, 1994: 160) is the first and foremost interest of the hegemon rather than raising other's welfare. Although Gilpin reminds us that all states gain from a liberal hegemonic order, the dominant power gains the largest share of all benefits. For political scientists coming from the realist school, the hegemon constructs a liberal international economy to maximize its own interests. These interests are not only the economic but also political. In the view of Gilpin "...A

liberal international economy cannot come into existence and be maintained unless it has behind it the most powerful state(s) in the system...A liberal economic system is not self-sustaining, but it is maintained only through the actions- initiatives, bargaining, and the sanctions- of the dominant power(s)" (Gilpin, 1975: 85). In contrast to the liberal variants of the theory, as mentioned above, the hegemonic state must thwart the free-riding problem by imposing political and economic sanctions on other states in the system.

In spite of these distinguishing points between the liberal and realist versions of the theory, both versions conceptualize their argument in the sense that supplying the international collective (public) goods may come into reality under the existence of a hegemonic state. For both variants, the world economy is freer within a hegemonic order and to a large extent there is openness in international trade with the absence of solid core-periphery relations characterizes the HST. However, the erosion of hegemonic status refers to increase of protective measures in the international trade, the closed national economies and the rise of tension in coreperiphery relations (Higgott, 1994: 160).

Even though HST presents theoretical, historical and political perspectives to analyze the underlying causes of the post-hegemonic disorder by combining political elements and economic outcomes in the world political economy, it is widely criticized in terms of its theoretical and practical validity. Gilpin confines that, "the tendency toward breakdown or fragmentation of the system greatly increases with the relative decline of the hegemon" (Gilpin, 1975: 73). This argument is not theoretically decisive because the erosion of hegemonic capabilities does not always culminate in the erosion of international liberal economic structure. In this sense, one of the major theoretical criticisms directed against HST is the idea that the hegemonic order and free trade are not necessarily linked each other. In order better to strengthen this argument, it is noted that historically there are non-hegemonic

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<sup>&</sup>lt;sup>6</sup> For the primary theoretical criticisms of the theory, see Eichengreen, 1995, pp. 230-254; Gowa, 1983, pp. 307-324; Grunberg, 1990, pp. 431-477; Snidal, 1985, pp. 579-614 and Hobson, 2002, pp. 305-325.

phases within which hegemony and economic openness did not overlap (Grunberg, 1990: 437). As the counter argument, for many political scientists, the theory is less formulated in terms of political grounds. Specifically, HST is more rested on the historical dynamics rather than the political theories. In this direction, it is marked that although the Soviets created a hegemonic structure in the Eastern Block, a Soviet-lead liberal economy was not experienced (Gilpin, 2001: 94). As the third disapproval regarding the relevance of the theory, opponents of HST reject the very realistic assumption that collective action is impossible under a hegemonic order (Snidal, 1985: 593). Critics hold that HST exaggerates the function of the state and political developments that affect the international economic system and it oversimplifies the place of ideologies, domestic actors, possibility of bargaining and social forces in shaping the international system (Gilpin, 1987: 91). In other words, HST does not attach particular importance to the normative and social dynamics at the internal and external levels. However, as Gramscian idea expresses, the normative dynamics in political realm play crucial role as much as material conditions.

HST presents a systemic-level analysis for international economy by providing the empirical accuracy and analytical coherence (McKeown, 1983: 257) in some respects and redefines the approaches to understand the hegemonic transitions in the world political economy. The theory is edified upon the assumption that the hegemonic state behaves in such a way, which is distinguished from the other actors in the world politics, and it is the guarantor of the smooth functioning of the liberal world economy. Stated in general terms, the approach seeks to probe the constitutive elements of hegemonic power and describes the political circumstances that enable the establishment of international liberal economy. While doing this, it speculates the format that the rise and fall of hegemonic powers is key point in perceiving the historical structural changes in the world political economy.

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<sup>&</sup>lt;sup>7</sup> For further analysis, see Krasner, 1976, pp. 324-332

The main purpose of this study is to analyze the hegemonic declines of the Britain and U.S. in the context of a comparative and historical framework. This chapter assumes a critical mission in the application of theoretical issues to the British and US cases. It can be seen that the emergence, development and decline of these hegemonic actors are compatible in many respects with the historical analyses of these theories. At the same time, all these primary theoretical approaches toward the concept of hegemony have become the focal point since the revival of hegemonic studies in the 1970s. For Realist, Marxist-Gramscian and World System theorists, the rise and decline of hegemonic states have been portrayed by their own understandings within an orderly global system. Throughout this study, although it is benefited from all these different theories for the explanation of hegemonic cycles and for the formation of a comparative perspective to analyze the hegemonic declines of the British and US powers, the particular attention is given to the World System approach. There are two causes of why the main interest is dedicated to the world system perspective. Firstly, in terms of fundamental defining characteristics of the cycles of hegemony and of their decline periods, the world system theory basically looks at from the point of long-term historical change producing certain determinant trends for the hegemonic transitions. Put another way, the theory argues that for the last five centuries fundamental and defining characteristics of the worldsystem remain the same. Since the 16<sup>th</sup> century there have occurred repeating cycles on the war, economic expansion and contraction, unicenticity and multicentricity and hegemonic transitions (Shannon, 1989:136). Due to the presence of recurrent cycles assumption in world system theory, it is easier to form the comparative analogies in the study of British and US hegemonic declines. Secondly, the area of interest of the theory shows variations; such as capitalism, interstate system, economic zones (core, periphery and semiperiphery), nation-states, social classes and etc. This diversity provides a chance to tackle the concept of hegemony from many values.

In this chapter, it is presented a starting point to employ a historical analysis and comparative perspective. By considering the theoretical approaches, the subsequent chapter evaluates the historical developments and dynamics in the rise

and decline of hegemonic positions of England and U.S. The theoretical assumptions facilitate the examination of patterns of political and economic changes in which the historical events have occurred. Now, let me turn to the historical analysis of both hegemons in the capitalist world-economy and interstate system.

### **CHAPTER II**

### HISTORICAL ANALYSIS OF THE BRITISH HEGEMONY

The purpose of this chapter is threefold. The first is to examine the roots of both British hegemonic case in which the factors and historical realities produced the dominant positions of Britain. The establishment of global hegemony is not a spontaneous development elsewhere in the history. It is totally a transition period in the modern world-system affecting all the aspects and dynamics of the interstate system and the capitalist world-economy. In the light of this reality, pre-hegemonic period of British power to acquire a hegemonic position is dealt separately. The second purpose is to investigate which reasons and determinants in economics, politics, military and technology gave way to the persistence and consolidation of the British hegemonic position. The last purpose is to explore the hegemonic decline of British power in the economic, politics, military and technological spheres. Historical research provides a broader understanding of comparative analysis of hegemonic cases. Therefore, the examination of respective historical processes gives an opportunity to the researcher to interfere the possible course of hegemonic system in the future.

Throughout this chapter, I shall shed light on the birth, evolution and decline periods of British hegemony. In what ways the British hegemony is defined? What are the basic features of the British hegemonic power in the nineteenth century? What are the political bases of the British power? From which perspectives the British can be defined? What are the most similar dimensions and mechanisms in the hegemonic world-economy and what is the impact of Britain in the creation of capitalist mode of production? To what extent the economic dynamics did play a creative role in the formation of British hegemony in the world system? What were the tools of the Britain in creating a hegemonic status? To what extent did

production, commerce and finance play a determinant role while establishing its hegemonic position? What have been the external and internal dynamics paving ways for the hegemonic declines of Britain? What have been the outcomes of the rise of pluralism in the world-economy for the British hegemony?

# 2.1 The Roots of A New World Order: The Transition from Dutch to British Hegemony

It is a clear-cut theoretical assumption that the establishment of hegemony is a slow process in time. At the early stage, the rise of a new hegemonic actor is related to the decline of previous hegemonic actor. Historically, the preparation process of a new candidate power for the hegemonic position coincides with the decline of the previous hegemonic power. This period is also a period in which new hegemonic order is built and in which the former hegemonic order enters into the disintegration and chaos process (Arrighi and Silver, 2001: 271-272). As Wallerstein expresses, these transitions are 'regular happenings' in the modern world-system and the periods producing a new hegemonic order are completed as a result of a land-based world war.<sup>8</sup>

Without doubt, the political and economic gravity of British state in the eighteenth century cannot be compared with its unquestioned status in the most of the nineteenth century (Whiteneck: 1998: 80). However, once more the hegemonic transitions are quite related to the demise of previous hegemonic order in the world-system. The construction of the predominant position by the Dutch Republic was the inevitable result of "competitive expansion... which [results] in a particular concentration of economic and political power" (Arrighi and Silver, 1999: 23). In spite of its limited capacity in terms of population and small territorial geography in the first half of the seventeenth century, as the predecessor of British hegemony, the Dutch model through its well-flourished trade networks, the highly technical use of

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<sup>&</sup>lt;sup>8</sup> He calls the World War that produces a new hegemonic core power at the final stage as 'Thirty Years War', see Wallerstein, 2002, p. 358.

agriculture and shipbuilding and financial institutionalization around the city of Amsterdam<sup>9</sup> had controlled the very fundamental mechanisms of capitalist world-economy (Modelski, 1987: 74-80). Nevertheless, the assumption that 'as hegemony matures, it also declines' due to the loss of advantageous edges in the domains of production, commerce and finance also gave rise to the downfall of Dutch hegemony in the world-system. In the general sense, the breakdown of previous hegemonic position is the primary factors that create a new hegemonic order and in such a manner, patterns of recurrences give way to evolution of the system and subsequently to a new hegemon. As expressed by Arrighi and *et al*,

In the seventeenth century...the United Provinces was to occupy a commanding position in the European-centered world-economy and to exercise a leading role in the consolidation of the system of sovereign states. But by the late eighteenth century, only empire-building national-states were in the running for world hegemony (Arrighi, Hui *et al*, 1999: 42).

The Peace of Westphalia in 1648 not only marked the highest stage of the Dutch primacy in the world-system but also ironically induced the starting point of its disintegration process and the emergence of system of European states (Arrighi and Silver, 2001: 261). In the following time, two concomitant developments determined the fate of world-system. On the one side, the supremacy of the Dutch industrial sectors began to deteriorate in the world-economy, one the other side, Britain's industrialization process under the protective umbrella of mercantilist measures helped the emergence of a new hegemon whose power organization and territorial networks would encircle the entire world throughout the nineteenth century (Arrighi and Silver, 2001: 50). Necessarily, the demise of Dutch supremacy did not in itself transfer hegemonic role to Britain. The process of hegemonic transition took a long time, at least one century that lasted from the end of seventeenth century to the end of Napoleonic Wars in 1815.

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<sup>&</sup>lt;sup>9</sup> For the role of Amsterdam in the Dutch system, see Boswell, Misra and Brueggmann, 1991, pp.55-80

In the post-Westphalia order, the main factors that redrew the map of European system were the successive struggles and major wars between the Dutch Republic and Britain. In medium-term, three Anglo-Dutch wars of 1652, 1664 and 1672 (or 'Anglo-Dutch trade wars') aimed to dismantle the economic and naval power of the Dutch Republic and to bring an end to its preponderance in European trading and shipping (Crouzet, 2002: 71 and Arrighi et al, 1999: 43-45). As noted above, the fundamental characteristic of the seventeenth century order was the implementation of mercantilist policies in the economic realm. Britain also pursued maritime and industrial mercantilism through taking certain measures (such as Navigation Laws protecting shipping and a system of duties and customs protecting industries) in order to pull the Dutch's share down in world trading system (Crouzet, 2002: 69). In this regard, British mercantilism became the key factor that helped Britain to increase its economic and naval power by making available the enormous accumulation of capital. As a final phase, the Utrecht Treaty (1713) marked the end of Dutch-centered world-system and Holland was forced to abandon many lucrative economic areas to England such as Gibraltar, Port Mahon, Minorca, Newfoundland and territories around Hudson Bay as well as crucial ports for a favorable position in the sea trading. Following this territorial defeat, "the transition from Dutch to British hegemony entered into its second phase" (Arrighi et al, 1999: 47) and the Dutch hegemony replaced with the power confrontation between Britain and France.

Actually, the Anglo-Dutch wars constituted only one side of the hegemonic struggle. The final round in power struggle came as the result of British-French rivalry. Only actor, which fought for the world leadership, was not Britain. France was also pursuing more assertive policies to catch up Holland and challenging not only Dutch system but also British endeavors to capture hegemonic position in the world-system. As world system theorists hypothesize, after the disintegration process of previous hegemonic order, the rivalry for fulfilling the hegemonic vacancy is finalized between two running-core powers and comes to an end with the outbreak of a full-scale war (Wallerstein, 2002: 41). In this sense, after the decline of Dutch system, Britain and France assumed the role of challenger in the interstate system.

The supremacy of both candidates for being new hegemon has had two origins; while France was more advantageous in the continental Europe, Britain had a decisive authority in the high seas (Gilpin, 1975: 80). In the longer term, the structural factors that enable a country to possess a hegemonic position in the world-system were more favorable for England. To put another way, "...England was better qualified to replace the Dutch rather than France" (Modelski, 1987: 82) and additionally "British strength and French weakness at sea, the superiority of the British financial system, and the relative backwardness of the French economy" (Crouzet, 2002: 80) put the British on more favorable position. In the last quarter of the eighteenth century, Britain enjoyed a more advantageous position to settle on the balances in the European system.

...British power had begun a more rapid advance due to the accelerating pace of the Industrial Revolution and to British control of access to America and Asia. Favored by rich veins of coal, deposits of iron, and an enterprising population, Britain began to take the lead in the technologies of the first phase of Industrial Revolution- textiles, iron, and steam power. The growth of the British economy and the relative decline of French power caused an increasing disequilibrium between France's dominant position and her capacity to maintain it (Gilpin, 1975: 80).

Both actors recognized the reality that as long as one of two competitors is not eliminated, secure and firm position for one of them would not be provided in the long-term. Therefore, the expected rivalry between two powers culminated in major wars in the period between 1780s and the first decade of nineteenth century in order to gain the preponderance in the European-centered world-system (O'Brien, 2002: 8).

The final phase of hegemonic struggle was completed with the victory of the British state that remained now alone and unrivaled in restoring and restructuring the capitalist world-economy to its very benefits. In the absence of any challenger core power, the dominant state is placed on the quite advantageous position to decide the overall rules and principles in the political and economic realm. Hence, the post-Vienna Conference years were characterized as the British-made world order in

which the basic mechanisms of interstate system and economic relations were put into place by the British decision-makers.

## 2.2 The Rise of British Hegemony

Making a hegemonic order is not a spontaneous development across the time. The transition from rivalry to hegemony and the occurrence of a comprehensive systemic transformation in the world-system is a regular and repeating characteristic of capitalist world-economy. Most remarkably, the breakdown of previous hegemonic system may produce a moment of total disorder and the rise of a new hegemon is a gradually advancing process, which culminates in a Thirty Years' land-based world war at the final stage. (See figure 2.1)

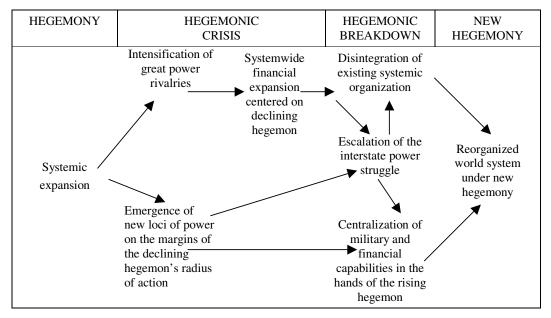


Figure 2.1: Hegemonic Transitions and the Interstate Power Struggle

Source: (Arrighi et al, 1999: 65)

According to this formulation, the British path to the global hegemony followed the same process as well. The end of Napoleonic Wars with the triumph of British navy and army over France launched the beginning of unchallenged authority in a newly occurring order. In history, after the long world war among competing

core powers, one state emerged with an uneven development and advantage (or disparity among one and other core powers), which stimulate this overwhelming core power to rearrange and reorder the hierarchical structure in the world-system. In particular, hegemonic state monopolizes the basic commodities in the worldeconomy by attaining an advantageous edge in production, commerce and finance. In this sense, the British hegemony is a well-designed case model of economic preeminence resulting from the most favorable position in leading industries and military factors (specifically naval power) that enabled Britain to supervise and control the central points of the world economy. The post-Vienna order did become not only the real beginning of British hegemony but also, in the words of Karl Polanyi, "a phenomenon unheard in the annals of Western Civilization, namely, a hundred years' peace-1815-1914" (Polanyi, 1957: 5). The following period of Vienna settlements in the continental Europe there emerged such a stable order in which Britain, in a period of total economic expansion, hold the undisputed superiority in the capitalist world-economy and surpassed all its rivals in terms of productive, commercial, financial and military power. The final defeat of France struggling for the world hegemony left Britain alone to project a world-system in favor of its interests. The world-system in this period is symbolized as the unicentric. It remained the key economy in the core and attempted to shape a world-economy within which it assumed a special responsibility distinguishing from other actors in the world-system. In such a position, it was not surprised that Britain would initiate to impose its economic and political vision in order to spread out its wealth and power in the world-capitalist system (Laitin, 1982: 702). Now let us to review the peculiarities and primary factors those generate and consolidate the British hegemony in the period between 1815 and 1870.

### 2.2.1 Economic Dynamics: The Free Trade Imperialism

While making an analysis of economic dynamics of British hegemony in the nineteenth century world-system, it must be emphasized that England, since the declining process of the Dutch system, had already created a well-networked economic system with the massive capital accumulation as the natural outcome of mercantilist policies. What Britain made in the nineteenth century was to combine the advantageous economic factors with strategic and political successes in a world-system within which there was no other challenging core power to its predomination. Hence, needless to say, economic components of England were the key elements that motivate it to construct a hegemonic order.

Even though the Dutch hegemony centered upon the commercial ties in the worldwide, the British system was based not only on world-trading network but also on the industrial revolution. The weight of industrialization in the making of British ascendancy is an undisputable reality, which emerged as the first and foremost factor paving the way for its economic superiority and accordingly its hegemony in the world-system. In this sense, one of the enlightening interpretations comes from Eric Hobsbawn;

...for a brief period it [industrialization] coincided with the history of a single country, Great Britain. An entire economy was thus built on, or rather around, Britain and this country therefore temporarily rose to a position of global influence and power unparalleled by any state of its relative size before or since, and unlikely to be paralleled by any state in the foreseeable future (Hobsbawn, 1968: 1).

Until the rise of other core power in the third quarter of the nineteenth century, Britain acted as 'the workshop of the world' and as the leading industrial state in the European-centered capitalist world-economy. In spite of its long-term experience in industrialization, only just after the Napoleonic Wars, Britain succeeded in using its industrial supremacy as an effective mechanism to dominate the world-economy (Arrighi *et al*, 1999: 61). That is to say, as an inevitable outcome of the victory over France, the industrialization provided Britain an automatic route to economic primacy and world influence.

<sup>&</sup>lt;sup>10</sup> This term was originally used by Eric Hobsbawn, see Hobsbawn, 1968, p. 22

As the transition from previous hegemonic system to the new one begins, the new hegemonic state attempts to put its political and economic vision into practice in this period and the imposition of new hegemonic vision by the rising core power ensures the continuity of newly establishing order. One another function of offering a vision by the new hegemon provides the legitimacy of its hegemonic position (Wallerstein, 2002: 359). As the reflection of this assumption, the British state initiated to settle and secure the free trade and the principles of non-discrimination. The switch from mercantilist ideas based on self-contained economy to the principles of free trade was the presentation and practice of the economic vision under the aegis of British system. <sup>11</sup> The application of free trade into the world economic order is the predictable process of enjoying an extensive productivity and market advantage compared to other core states.

Breaking the French efforts for world supremacy brought Britain an overwhelming dominance in terms of navy that was positioned in all strategic regions, waterways and seas across the world. This global expansion meant that the British naval supremacy was organized and deployed in large part of the world in order to endorse and strengthen the free passage of products. This position in favor of free trade brought about the constant efforts to open up new markets to which it would export its manufactured goods. Above all, the British orientation towards the free trade, in a general sense, was seen as "a means of bringing Britain's major rivals, as well as "backward" areas and newly settled countries into a dependent relationship with Britain" (Cain and Hopkins, 1980: 477). Since the British had a comparative productivity advantage over not only the peripheral but also core economies made easier the establishment of such uneven economic relationship. The implementation of free trade in the capitalist world-economy brings us to the reality that the British achieved to sell abroad its manufactured commodities without any restriction (Arrighi et al, 1999: 60). Due to the leading position in productivity over other countries, Britain defended the free flow of goods and capital in the

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<sup>&</sup>lt;sup>11</sup> The repeal of Corn Laws in 1848 and the Navigation Acts in 1849 accelerated the process of unilateral liberalization, see Lairson and Skidmore, 1993, pp. 38-41.

international economy. Generally, Britain was coordinator, promoter and the major beneficiary of such an economic structure and its two-sided economic logic with the harmonization of industrial and commercial spirits enabled it to pursue more assertively the free trade in worldwide (Gamble, 2002: 132). As expected, "British [economic] hegemony worked as long as other core economic powers espoused economic liberalism" (Lee: 1998: 65-66).

Historically and unsurprisingly, the financial city of the hegemonic core power has also become the financial center of the world-economy since the hegemon establishes the rules and norms within which it exercises great influence to reorganize the deteriorated financial system with the end of previous hegemonic order. In this regard, the step-by-step replacement of Amsterdam by London as the center of international finance and its superiority compared to other cities (for instance Hamburg, Bordeaux, Venice, Genoa, Lisbon, Seville and Barcelona) marked a new epoch in the world financial system (O'Brien, 2002: 10). The City of London assumed a kind of unicentric role like the unicentric role of Britain in the world-system throughout the nineteenth century. Repeatedly in the historical progress, the periods of hegemony bring together the overall economic upswings in the world-economy. In the light of this fact, the City of London was staying at the heart of this expanding economy and expectedly it drew huge amounts of capital by means of saving funds and exported these sources to foreign credit seekers (Walter, 1991: 33). It gradually increased its leverage in effecting the flow of capital, currency-exchange and long-term investment (Meyer, 1992: 97). Such an organic structure made secondary countries in the core of the capitalist system dependent on the City and hence on the decisions of the British governments.

One of the basic characteristics of the City was its structural function in becoming the natural home of *haute finance* (or high finance). One writer describes haute finance as "an activating center of bankers" (Lee, 1998: 74) and the most explanatory analysis for the role of haute finance is made by Polanyi;

Haute finance, an institution sui generic,...functioned as the main link between the political and economic organization of the world in this period. It supplied the instruments for an international peace system, which was worked with the help of the Powers, but which the Powers themselves could neither have established nor maintained. While the Concert of Europe acted only at intervals, haute finance functioned as a permanent agency of the most elastic kind (Polanyi, 1957: 10).

Haute finance settled in London and its close linkages with the Victorian governments provided Britain an opportunity for establishing a complex network in the international financial system in which it played a decisive and dominant role and occupied a central position as an influential means of the British hegemony during the peak years of finance of the nineteenth century system (Arrighi, 1993: 172). In other words, haute finance bared an indisputable liability as the very noteworthy agent of British hegemony in the global scale.

Besides, the Gold Standard system<sup>12</sup> performed as an integral part of the world economic system in the nineteenth century and provided the substantial and effective means of the British hegemonic system. Like Polanyi said, "international gold standard...symbolized a unique organization of world economy" (Polanyi, 1957: 3) under the leadership of Britain. The manager and supervisor of this international monetary structure was Britain with the crucial position of the City of London in carrying out the system. Gilpin clarifies the working and role of the gold standard;

...through its [England's] hegemonic position in world commodity, money and capital markets enforced "the rules of the system" upon the world's economies. The integration of national monetary systems with the London financial market endowed Great Britain with the ability to control to a considerable degree the world's money supply (Gilpin, 1987: 126).

Britain as a part of its hegemonic status took the responsibility of smoothly functioning of the gold standard system and essentially it had a capability to hold such an effective role in the world financial system. Definitely, the main recipient of

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<sup>&</sup>lt;sup>12</sup> The Gold Standard System refers to a monetary system based on fixed exchange rates within which values of national currencies are determined in terms of a fixed quantity of gold.

this systemic financial structure was Britain but other core states gained from the system in relative terms; otherwise they had no interests to accept and enforce such a monetary system from which London and Britain gather the all the shares (Gilpin, 1987: 127).

Briefly, the hegemonic progress is based on an assumption that the economic supremacy of the hegemon over other core states results from firstly the productive advantage that produces the commercial advantage and lastly that produces financial advantage in the world-economy (Wallerstein, 2002: 358). The British economy had a clear-cut superiority over all other competitors and the main motor of this advantage was the production sector and exports to the world markets (Chase-Dunn, Taylor *et al*, 1994: 364). In the general sense, this structure created the hegemonic power of Britain and as mentioned above, the combination of the economic advantages (as the result of uneven economic development in the capitalist world-economy) with the skillful use of political and strategic factors gave rise to its uncontested status in the world-system.

# 2.2.2 Political and Strategic Dynamics: Britain as the Pivot of Balance-of-Power System

An important defining characteristic of the period of the full hegemony stems from the hegemon's ability in using its strength in order to construct the institutions and rules of the interstate system (Strange, 1994a: 558). To a greater extent, the success of the hegemonic state is rested on the smooth functioning of the system accepted by other actors as legal and appropriate to their interests. In the world-system analysis, it is argued that in the duration of real hegemony, the overwhelming power might be able to project a systemic network of alliances and while doing so the creation of an 'enemy' (ies) by the hegemon is a likely political behavior. "The alliances are not constructed in order to combat the enemy, but rather that the enemy is constructed in order to control the alliances" (Wallerstein, 2002: 360). Parallel to this, the network

of alliances brings about the articulation of political and economic interests of the other actors in the system to the interests of the hegemonic core power. In this respect, the balance-of-power system<sup>13</sup> (or the Concert of Europe) served to the vital interests of the British power in the nineteenth century and it is labeled as one of the key political/strategic elements in the world-system created by Britain. On the one side, like Polanyi's argument, the nineteenth century balance-of-power mechanism resulted in peace rather than war (Polanyi, 1957: 3). On the other side, "the European balance of power was transformed, for a while at least, into an instrument of informal British rule" (Arrighi *et al*, 1999: 59) within a non-anarchic world-system. In general, Britain checked the assertive policies of Russia in the Eastern Europe and Prussia and France in the Western Europe and by controlling the major rival powers Britain assumed a mediator role when a threat occurred against the smooth working of the interstate system (Gilpin, 1972: 55). Most importantly, the achievement and implementation of balance-of-power ensued the rise of global free market economy under the auspices of the British power.

In terms of domestic politics, the hegemonic actor also should a strong state structure in which it unites the diverging ruling elites under the aim of firstly establishing and subsequently continuing a dominant status in the world affairs. In the absence of a domestic political consensus towards assuming the hegemonic role, a candidate country for world leadership cannot have a stable order in the internal affairs. As Peter Taylor shows "hegemony requires a relatively high level of consensus as stable home base from which to project power and this has to be constructed" (Taylor, 2002: 293).

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<sup>&</sup>lt;sup>13</sup> Arrighi defines the balance of power system "three or more units capable of exerting power will always behave in such a way as to combine the power of weaker units against any increase in power of the strongest", see Arrighi *et al* , 1999, p. 58.

### 2.2.3 Military and Technological Dynamics: Being the First Innovator

The buildup of capital, gold and monetary reserves and the conversion them into the economic power combining with the overpowering military force in the continental Europe enabled Britain to use such a wealth as a weapon for rising to the world hegemony (Johnson, 2002: 338). The final defeat of the French forces in the War of Waterloo left Britain as the unique core power without a challenger. As the classical peculiarity of the hegemonic order in the world-system, Britain initiated a new mission based on the building a widespread trade network with the principle of free and safe passages of goods in the worldwide. Enjoying command of the world's largest and strongest navy<sup>14</sup>, Britain took on the tripartite mission in terms of the oceanic traffic. Firstly, Britain attained the naval bases in nearly all strategic locations of the globe- in Gibraltar, Singapore, the Cape of Good Hope and Alexandria (Gilpin, 1975: 82) - and this provided the British state to pursue more assertive economic and political aims and gained a means for maximizing its efficiency over the non-Western peripheral regions across the globe. Secondly, the navy stationing in the passage points of international trade gave a chance to England for the easy access to the outside world and to close up these overseas territories to the entrance of other core powers. In this respect, preserving the overseas trade ties constituted the 'lifeblood' of the British strategy throughout its hegemonic status. Last but not least mission of the navy was related to the geographical location of the Britain. The effectiveness of its naval forces became the most helpful tool in securing the British Isles and deterring any potential aggression of other states by sea (O'Brien, 2002: 12). To put it another way, the logic behind why the British were not subjected to any aggression by sea across the time was the discouraging impact of its powerful navy in keeping the enemies off the Isles. In the light of this monopolistic

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<sup>&</sup>lt;sup>14</sup> In order to strengthen the argument that the British had established an unprecedented supremacy over other core states, it becomes enlightening to give a comparison; in the most balanced period, in the preeminence of British navy over France -the nearest rival to its supremacy- the ratio was 3 to 1, see Crouzet, 2002, p. 77.

role played by Britain, as one historian describes, the navy was the most influential means "to persuade other states... to do what Britain wanted" (O'Brien, 2002: 18).

As addressed earlier, the hegemonic actor must take a leadership role in introducing new technologies, which give the innovator an undisputed advantage relative to other core powers (see table 2.1).

Table 2.1 Transitions in Technology

Leading Industry				
Innovation	Textiles 1793-1825	Railroads 1848-1873	Steel and Automobiles 1896-1913	Oil and Chemicals 1940- 1967
Constant Capital	Industrialization of power production (i.e., steam engine)	Industrialization of machine production	Industrialization of extractive industry	Industrialization of agriculture
Markets	Merchant marketing; expansion in the Americas	European markets opened by 1848 revolutions	Mass consumption advertising; expansion in Africa, Asia and Oceania	Electronic advertising; social welfare and Keynesian market maintenance
Competition	Regional monopolies; colonial system, British hegemony ascending with France and Belgium competing	British hegemony with France, Germany and the United States rising	Monopolistic firms and state regulation; imperialist system; United States and Germany ascending with Britain and France competing	Multinational monopolistic firms; U.S. hegemony with Japan and Germany rising

Source: (Boswell 1987: 106)

In a way, establishing and maintaining the hegemonic status in the world-system is closely related to the use of newly founded scientific techniques augmenting the edge of productivity. That is to say, as long as the hegemon monopolizes the use of new techniques in the domain of production, it may last its central position in the world-economy until the application of new innovations by the secondary powers in the core area. One of the ingredients generating the British hegemony was the immediate application of technology to the production sectors.

Rondo Cameron, the economic historian, clarifies this situation by claiming that the peak of supremacy of Britain in the technological aspect was between 1850 and 1870 (Cameron, 1997: 226).

In the periods of total expansion of the world-economy, the innovations made by the leading state occasionally create the financial opportunities by opening up new markets for the exploitation of the hegemonic core economy. The first phase of industrialization centering upon textiles, iron and coal sectors (Cameron, 1997: 224) gave a chance to the British manufacturers for the accumulation of considerable amounts of capital in exchange for exporting the manufactured goods by means of well-established trade relations. The huge accumulation of capital by the British provided the defense of hegemonic position in the economic structure prior to the last quarter of the nineteenth century.

Bringing the massively diffused transportation networks into use characterized the second phase of modernization and progress of the British leadership in the field of technology. The technological uprising in transportation was applied through the conversion of steam power into an efficient machine power in sea and land transport. The construction of railways across not only Britain itself but also additionally the continental Europe and starting the use of steamships in the overseas trade marked the more and more integration of regional markets under one market; the global market.

With the system of transport and communication being put into place, world trade expanded unprecedented rates. From the mid 1840s to mid 1870s, the volume of sea borne merchandise between the major European states more than quadrupled, while the value of exchanges between Britain and the Ottoman Empire, Latin America, India and Australia increased six folds...As the workshop of the world, [as the result of technological leadership in the production sector] Britain was uniquely well-positioned to take advantage of the spread of industrialism to other countries by supplying means of transport and production in exchange for food and raw materials. These, in turn, cheapened the cost of structure and reproduced the competitive edge of British business in world markets (Arrighi *et al.*, 1999: 61-62 and 72).

The very strategic and effective use of relatively high technology and its application on capital-intensive products put the British economy on the unique place in the world-system and such overwhelming situation in the economic order stimulated the claims of Britain for world hegemony. For nearly a century, its strength encompassed all regions of the globe and the system is named as the British-made world-system.

# 2.3 Decline of British Hegemony: From the World Prosperity to the Systemic Chaos

The period of hegemonic decline, hypothetically, is a phase in the inter-state system coinciding with the occurrence of total systemic chaos and subsequently culminating in raising a new hegemonic core power that would dictate and reorganize the international political and economic system (Arrighi and Silver, 1999: 33). Like the birth of hegemony, the erosion of dominant power in the economics, politics and military spheres is a gradual and slow process and more generally is a regular happening throughout the history. The primary way to characterize the hegemonic downward is the existence of total disorder and chaos in the world-system because of the inability of old hegemon to retain its dominant status originating from economic advantages in its early years vis-à-vis other states in the core. Indisputably, the decline of hegemonic state from the status of world leadership witnesses comprehensive regional and global transitions in the world-system. In this regard, in order to qualify the transformative changes in the core during the hegemonic erosion, there must become some specific and far-reaching impacts in the global system. That is to say, "decline of hegemony is much more than a country's decline in economic and military superiority. It involves breakdown of a qualitatively specific world order including economic arrangements, relations between states and economic actors" (Kiser and Drass, 1987: 288). In such a manner, the transition from the unicentric core structure to the multicentric is the typical characteristics belonging to the period of hegemonic decline. The rise of multicentric core accompanies the intensification of political and economic instabilities, conflicts and hostile competition among all contending powers for becoming world hegemony.

"Economic upswings since the sixteenth century are related to a change from competition, while some downturns are related to a reversal from hegemony to competition" (Weber, 1983: 50). This generalization is applicable to the British case. In broader terms, throughout the first three quarters in the nineteenth century the capitalist world-economy experienced an economic boom pervading in almost all core countries but this economic expansion was realized under the aegis of British state as the hegemonic power. The picture reversed in the last quarter of the century and firstly the over-expanded world-economy lived the global economic stagflation affecting all core powers but mostly the British and following this shrinking, the competitive structure, in which nearly all actors in the core participated in hegemonic race, started to characterize the operation of the world-system.

The downturn period of hegemon goes in tandem with the systemic chaos and instability that gives rise to dismantle the existing political and economic organizations and cease the ideological foundations of its worldwide preeminence. As a response to the overall transformation in the world-system, alternative models of institutional arrangements are set forth by the latecomer core powers.

### 2.3.1 The British Decline in Politics

Both in practice and theory, the hegemonic actor must have indisputable control and authority in the political affairs in order to impose its vision (with coercive or consensual measures in Gramscian terms) on secondary powers. To a certain extent, it must have absolute control over the possible outcomes in the system to provide the stability of the world it created. However, the period of real hegemony is not very long time between the ascent and declining hegemony.

In the case of Britain, the period of real hegemony prevailed a half-century from the post-Vienna settlements to the First Great Depression occurring in 1873.<sup>15</sup> One of the effective political ingredients creating the British hegemony was well-designed European balance of power system. As Arrighi points out,

Through [it], Britain created the perception that preservation and consolidation of a fragmented and "balanced" power structure in Continental Europe, which served its national interest, served also a more general interest- the interest of former enemies as well as former allies, of the new republics of the Americas as well as of the old monarchies of Europe.... As soon as Britain succeeded in turning the European balance of power into an instrument of peace, the appeal of self-sufficiency waned and that of economic interdependence waxed (Arrighi, 1999: 220-221).

Free trade, the center of British hegemony, could only be operated in a secure and peaceful political environment and the balanced structure in the Continental Europe helped Britain to secure such an economic system favorable to its vital interests. However, starting from the 1870s, secondary core states, thanks to their economic development with respect to the hegemonic power, began to claim their leverages in the world-system and the system switched from unicentricity, in which economic competitive advantages and power are held in the hands of one core power, towards multicentricity in which the resources of power and competitive advantage are shared more equally, namely a more balanced global structure (Chase-Dunn, 1987: 59).

Wallerstein says "decline of previous hegemonic power is a moment in which two contenders emerge for the succession. After Dutch hegemony, these were France and Britain. After British hegemony, these two powers were the U.S. and Germany" (Wallerstein, 2002: 358). In the lights of this assumption, the British supremacy over all other powers started to erode in the latter part of the nineteenth century with industrial growth of non-hegemonic core economies seeking an equal status to that of Britain in the world-system. In this connection, Germany explicitly and the United

<sup>&</sup>lt;sup>15</sup> For a detailed analysis of 1873-1896 economic crisis, see Gourevitch, 1991, pp.89-108.

States implicitly became the first two powers challenging the global interests of Britain as well as its continental order so-called the balance of power system.

As a result of the German unification (1870-1871) guided by Bismarck pursuing very assertive and well-designed policies, its industrialization turned out to be "the most important development of the half-century that preceded the First World War- more important even than the comparable growth of the United States, simply because Germany was enmeshed in the European network of power and in this period the fate of the world was in Europe's hands" (Arrighi, 1999: 225). In accordance with its rising gravity in the world affairs, the unified German state became the strongest core actor in the Continental Europe attempting to replace the British-centered world-system towards a German-centered order.

While the open challenge of Germany has the military and political origins, the rise of the United States represented more appropriately an economic challenge. The US industrialization with the combination of quite productive economy in a vast geographical continent paved the way for the rise of a non-European core power. Quite contrary to the German assertiveness for restructuring the system, the U.S., at least in this period, did not initiate such a mission. The prevailing feature of U.S. was a kind of isolationism resting on non-interventionism in the European affairs. Therefore, in spite of open claims of Germany for the world hegemony, the U.S. acted with deliberation in the world-system.

#### 2.3.2 The British Decline in Economics

More specifically, the hegemonic decline is caused directly by the economic strengthening of other core states (Wallerstein, 2002: 360). This is the period throughout which the hegemonic economy as the most cost-efficient economy in the capitalist system loses its superiority in productivity. However, this does not mean that the hegemon completely falls into secondary core power or semi-periphery.

... [In the period of relative decline]...it [hegemon] is still the strongest country, with all prestige that has accrued to it as the hegemonic power. It is still the richest country, even if it is comparatively less rich than before. The decline, as it happened in rise, is a slow process (Wallerstein, 2002, 361).

The multicentric core structure is empirically characterized the intensifying economic competition. The increasing trend toward trade protectionism, the rise of customs walls and tariffs preventing the free exchange of goods symbolize the changing nature of the world-economy. To a certain extent, this is the temporary transition period from the capitalist mode of production to the relatively closed national economies. Stated in simple terms, the periods of hegemonic decline accompanies with strains in the system (Grunberg, 1990: 431).

As the formation of hegemonic economy, the loss of it follows the identical way. While becoming the most efficient economy in the capitalist system, the hegemon takes the leadership at first in production, then in commerce and finally in finance. The reversal of hegemony repeats in the same sequence. The falling hegemon, at the first glance, goes down in the production domain, then relatively declines its share in the overall world trade and lastly it cannot preserve its domination in regulating the international finance. <sup>16</sup>

From this formulation, the British hegemony in production became the first domain that disappeared on the grounds that the U.S.' and Germany's massively boost in output of manufactured goods and raw materials. Definitely, the dissemination of technology enabled non-hegemonic core states to catch up the hegemon in the total output. According to Maddison, "Britain did more to diffuse the technology it generated because of its liberal commercial policy and its vast foreign investments" (Maddison, 2002: 183). In this regard, with the start of use of high technology (such as electrical, chemical and light metal industry<sup>17</sup>) by other core economies, the U.S. and Germany firstly catch up and then surpassed the hegemonic

industrialism, see McNeill, 1963, p. 737.

<sup>&</sup>lt;sup>16</sup> A detailed analysis of British decline in production, commerce and finance within a comparative framework with the reference to the current situation of US hegemony is elaborated in the Chapter IV.
<sup>17</sup> William McNeill calls the use of these new technologies as the second phase of modern

economy in the period following 1880s (Kiser and Drass, 1987: 290). Once the productive advantage waned for Britain, it became rather difficult to restore supreme position in the capitalist world-economy.

In the periods of vanishing hegemony, it is also not easy to retain the secure, free and unrestrictive flow of investment and trade and the economic structure is now more open to systemic instabilities. In this sense, what describes the general outlook of the decline of hegemony is aggravating bilateral trade relations and retreating into economic protectionism. In the British case, the deterioration of free trade order and tendency toward protectionism combined with the First Great Depression of 1873-1896 suspended the enforcement of laissez faire economics and accordingly it became the substantial experience harming the British trade interests. Starting from early 1870s, Britain's share of world trade evidently went down (Cain and Hopkins, 1987: 3). Since the British economy was highly dependent on the international commerce in the course of nineteenth century, the unfavorable change in the rules of international trade left its economy within an alarming situation. Moreover, through the implementation of free trade principles without making any discrimination to other core powers, Britain had opened up the areas where the British had established a comparative political and economic leverage to all advanced core economies (Maddison, 2002: 150). As a result of booming industrial capabilities in nonhegemonic core economies, they did penetrate more easily into the underdeveloped areas of the world-system and improved their economic ties with the peripheral areas.

In general, the loss of productivity advantages and market shares bring about the loss of financial superiority as well. In the decline of hegemonic economy, the financial domain is the last sphere lost by the hegemonic core actor. Since the fall of Amsterdam as a hegemonic city, London functioned the financial center of the world-economy through providing credits and extracting funds from abroad and at the same time the British economy rose to a position as the world's greatest creditor economy. As earlier indicated, during the falling process of British economy, the loss

of productivity, market and trade advantages coupled with, as the final stroke, the loss of financial domination. This the period in which the British economy evolved from being net and the largest creditor nation to world's largest debtor nation (Barnett, 2002: 143). In order to minimize the deficits in balance of payments, the British policy-makers preferred to use financial credits and hence the debt stock of British economy showed a radical boom starting from last decade of nineteenth century. The increase in the amount of investments diverted Britain into a rentier economy in which the hegemon began to depend on the financial incomes coming from foreign investments and savings rather than focusing on the redevelopment of economic productivity and technology. More specifically, after 1870 Britain turned out to be a service economy (or service capitalism). As the non-hegemonic core nations started to grow and catch up the hegemon, the British economy converted from industrial economy to the service economy. Due to the assumption that the last domain disappearing in the decline process of hegemony is finance, although Britain lost its superiority in production and trade in the 1880s, the financial domination was maintained until the outbreak of the World War I. Because the British shares in world total production and trade has steadily diminished, the decline in the rates of profits in these two leading sectors promoted Britain for the orientation towards the financial sphere in the search for profit.

Another point regarding the economic causes of decline can be found in the relationship between military structure and economy. The reality that "as a state increases its control over an international system, it begins some point to encounter both increasing costs of further expansion and diminishing returns from further expansion" (Gilpin, 1981: 107). As the other core states increased their power as opposed to the hegemon, the dominant military actor in terms of naval and land forces had to spend more and more money in order to keep rising states in check. That is to say, as an inevitable part of hegemonic capability and liability, the hegemon must invest primarily in military domain. But, as Wallerstein points out, the increasing spends in military structure undermine the very basis of hegemonic economy by shifting its investments from economic sphere to the military one

(Wallerstein, 2002: 360). Ironically, the efforts to maintain the hegemonic mission became slowly but increasingly a heavy burden on the British economy rather than creating a source of power.

## 2.3.3 Imperialism: The Way to the Disintegration

A period of hegemony is relatively stable period and there is high consensus in the accepted rules of interstate system (Kiser and Drass, 1987: 425). However, the deterioration of the established order does not only give rise to intensifying political and economic competition also an intense struggle for infiltrating and obtaining fruitful markets in the peripheral zones. In this direction, in some cases, the hegemonic decline goes hand in hand with the imperialist policies pursued by the competing core powers. According to many, imperialism referring to the creation of political control over the raw materials and outlets for products abroad (Arrighi, 1999:223). At the final stage, there emerges a concurrent development from market competition to military competition [namely war among core economies (Amin, Arrighi, Frank and Wallerstein, 1982: 235)] is the direct cause of the decline of hegemonic power. Therefore, colonization and intensified core-periphery relations are tended to increase during the multicentricity in the world-system (Boswell, 1989: 185 and Bergesen, 1983: 75). In contrast, imperialism and colonization is predicted to lessen during the unicentric periods.

The occurrence of imperialist strategies is highly related to the relative decline in industrial productivity in the hegemonic production. In the words of Cain and Hopkins,

After 1870, Britain's relative industrial decline aggravated by growing competition among great powers for economic and political influence outside Europe, led to more aggressive search for markets. Exposed to free trade and falling profits, and driven out of Europe and America, industrial interests in Britain shifted around 1880 to decisive support for acquisition of new markets in Asia and Africa. In Burma, the Malay States, and China the British government deliberately extended its formal and informal in

order to create new markets, or to save markets from absorption by competitors (Cain and Hopkins, 1980: 485).

By this way, the erosion of relative decline in industry engendered the economic imperialism for Britain. On the other hand, as other competing powers claimed their intentions for the world supremacy, the imperialist feelings did not remain limited in Britain and other European powers initiated to seizure peripheral areas. Germany, particularly, emerged as the principal threat to the British interests in the race for colonies in the periphery. Calleo reminds, "to acquire a more ample territory, Germany either had to move out into world and thus challenge Britain's global position, or else expand in Europe itself and thus break the continental balance of 1815. Germany pursued both goals simultaneously" (Calleo, 1987: 133) and, in short, it became the most decisive factor paving the way for the very instable order and the First World War.

The fact that the last quarter of the nineteenth century world-system is distinguished with the presence of First Great Depression of 1873-1896 and for this reason with the closed and protective national economies. In other words, this is a period throughout which the integration into the world-economy, capitalist in nature, was interrupted because of the increasing gravity of national economies rather than unique world-economy. Only exception to this reality towards protectionism was the peripheral zones of the world, which had not integrated into capitalist economy and far from implementing protectionist measures. In such a manner, "the spread of imperialism was itself primarily the result of a struggle between the powers for the privilege of extending their trade into politically unprotected markets" (Silver and Arrighi, 2003: 332) and more interestingly, "imperialism...was the bent of powers which found themselves more and more dependent upon an increasingly unreliable system of world economy" (Silver and Arrighi, 2003: 332). The imperialism served a kind of tool in order to finance the loss of transition from self-regulating global market economy to the autarkical or self-sufficient national economies. The unreliability to this unstable and crisis- prone capitalist world-economy caused directly the imperialist feelings and subsequently the outbreak of World War I and

the end of Hundred Years' Peace of the nineteenth century. As analyzed below, the hegemonic decline, conflict and competition arising from the imperialist policies in worldwide gave rise to the occurrence of Thirty Years' War which would culminate in the birth of new hegemonic actor.

### **CHAPTER III**

### THE US HEGEMONY IN HISTORICAL PROCESS AND THE HEGEMONIC CRISIS

This chapter firstly intends to constitute a general framework to explain the transition period from British power to the US. Therefore, an overall outlook of interwar years (1919-1939) and the transfer of hegemony from Britain to U.S. are analyzed in the first pages of this chapter. The primary reason to explore these traumatic years from 1919 to 1939 based on the fact that the transfer of hegemony from Britain to the U.S. was realized in this period. What are the basic political and economic features in these years? Can we mention about the lack of hegemonic power in the international system? What were the factors paving the way for the rise of American hegemonic power?

Afterward, the mature period of US hegemonic power is described with direct references to the political, economic and military domains. How these domains affected the establishment of American power? What was the impact of World War II on the rise of US hegemonic economy? Which strategies, agents and institutions played determinant role in this hegemonic course? Which kind of relationship was formed among U.S., Western Europe and Japan? What did U.S. make to reconstruct the capitalist world-economy and what were the benefits of these reconstruction efforts for the US economy?

The last section of this chapter evaluates the ongoing decline and current crisis of US hegemonic power in the world-system. The basic causes in the downturn process of US hegemony are touched and the events that produced a hegemonic crisis in the world-economy are assessed. What have been the external and internal dynamics paving ways for the hegemonic decline of U.S.? What have been the

outcomes of the rise of pluralism in the world-economy for the US core power? What are the roles of oil shock, the rise of Third World and economic strengthening of European powers on the hegemonic position of US power? Which countries can be labeled as challengers to its hegemonic power? Can we mention about the existence of multicentric inter-state system?

### 3.1 Interwar Years: The Transfer of the Hegemony

According to world-system theory, following the intense struggle to hold the world hegemony and the systemic chaos beginning with the decline of previous hegemon, the competition among core powers comes to an end with the breakout of the thirty-years land-based world war. Through this war, the most powerful core country eliminates other contesting actors and temporarily imposes its political and economic vision on the world-system until the emergence of another hegemon. Apart from other historical cases, Two World Wars (or Thirty Years' War) from 1914 to 1945 took place within two phases. The hegemonic struggle starting with the World War I was only completed with the World War II and the interregnum years became the vital period determining the future of hegemonic rivalry. Nevertheless, such transformation in the world-system did not automatically replace the British hegemony with American hegemony; it simply prepared the domestic and international conditions for the rise of US power. It is well known fact that the real period of American hegemony in the global scale existed after the World War II.

It is a reality that during the interregnum period no core state could compel other states to obey its monopoly in regulating the rules and institutions securing the hegemonic undertaking. In other words, the basic characteristic of the era was the absence of monopolistic/unicentric order in which the unique hegemonic actor holds economic advantages and military superiority to the great extent. Yet, due to wartime costs and the impact of total material destruction in the national economies, it is not easy for any core state to initiate a new hegemonic struggle in the short-term. Within such structure of the 1920s, the first decade of interwar years, witnessed the

reestablishment endeavors of the nineteenth century world order based on the liberal creed at the international level. Therefore, Polanyi calls the 1920s as "Conservative Twenties" (See Polanyi, 1957: 20-30) during which the political and economic actions aimed at recovering the capitalist world-economy. In retrospect, those years were largely the story of useless efforts to restore the old agents of capitalist economic order such as the Gold Standard, self-regulating market economy and worldwide peaceful atmosphere (Lairson and Skidmore, 1993: 51). At the outset, the American aids and reconstruction process combining with the increasingly more economic stability and growth rates generated temporary hope for the reinstallation of the capitalist world-economy (Gill and Law, 1991: 131).

This hopeful atmosphere ceased with the comprehension of the truth that Britain, as the fading hegemon, could no longer organize effectively the rules for smooth functioning of the system, and the U.S., as the rising hegemon, was unwilling to guarantee such a task. As Keohane puts it into the following words,

...What prevented American leadership of a cooperative world political economy in these years was less lack of economic resources than an absence of political willingness to make and enforce rules for the system. Britain, despite its efforts, was too weak to do so effectively (Keohane, 1984: 34).

But at least it was obvious that in the economic domains (production, trade and finance) the hegemonic position passed from Britain to the U.S. Just after the World War I the U.S. established a clear-cut economic preponderance over all core powers and "the First World War simply transformed [American] regional supremacy into an instrument of global dominance, primarily through massive redistribution of assets from the declining to the rising hegemon brought about by the sale of wartime supplies" (Arrighi *et al*, 1999: 78). One indicator of such transfer of hegemonic mission from Britain to the U.S. was seen during the war. The British state became heavily dependent on extensive military and economic resources coming from the American state (Mommsen, 2002: 153). As a reflection of this development, while Britain became the world's largest debtor economy due to the wartime costs, the U.S. rose to the world's largest creditor economy. Once the war

broke out, enormous expenditures remarkably undermined the very underpinnings of British economic superiority and in the post-war time it became impossible to reproduce its old economic preeminence. To strengthen better in the words of Arrighi,

World War I occasioned a considerable liquation of Britain's external assets, and in the second half of the 1920s the share of new capital issues for overseas borrowers declined from its pre-war range in excess of 50 percent to 37-44 percent before slumping to very much lower levels in the 1930s.... In contrast to Britain, America's foreign assets doubled over the course of the war and after fluctuating in the immediate postwar years, soared in the mid-twenties (Arrighi, 1999: 73).

Concurrently, the City of London steadily lost its financial center status by leaving this position to New York City assuming the pivotal role in the international finance. This transition did not come suddenly, instead, in the interwar years both cities carried out the function of becoming key financial centers in the world-system. However, on the one hand, the City of London gradually was losing its status of becoming the focus point of *haute finance*, on the other hand New York started to become the new hegemonic core city for managing the flow of capital, currency and commodity exchanges and mid and long-term investments. Apparently, the Britain was no longer dominant actor managing international politics and monetary relations and it was displaced as the world hegemony. That is to say, Britain relinquished the power sources and slowly but increasingly dropped to the status of secondary core power. In general, in the course of post-war stage, while Britain could not perform the hegemonic role due its inability, the American state avoided getting the leadership mission as well. The lack of hegemony in the interwar years gave the way to "Revolutionary Thirties" (See Polanyi, 1957: 20-30) in the Polanyi's terminology.

Beyond any debate, the major factor creating the Revolutionary Thirties was the Great Depression of 1929. The crisis compelled nearly all states in the core to return neo-mercantilist economic preferences through autarchy and protection. Specifically, the national economies triumphed over international monetary order (Gilpin, 1987: 128). War economies, replacement of interdependent world-economy with autarchic domestic economies, the demise of Gold Standard and tendency towards protectionism instead of free trade principles radically changed the very logic of world-economy. In this way, the gravity of state in the conduct of economy increased severely in almost all core nations and the *laissez faire* ideas led to the rise of economic nationalism. In the course of nineteenth century, the capitalist world-economy had presumed as beneficial for all states was not a zero-sum game. Quite contrary to this, the post-British era passed with political and economic turmoil within which zero-sum game dominated the interstate system and as a consequence of more decentralized polity, greater economic and political competition determined the characteristics of the system in the 1930s.

Most remarkably, the collapse of London-centered global monetary system going together with the demise of Gold Standard destroyed the bases of finance and trade and accordingly created alternative political and economic understandings instead of liberalist ideas (Silver and Arrighi, 2003: 334). In this respect, Revolutionary Thirties experienced a semi-systemic challenge to the nineteenth century civilization with the rise of Nazism, Fascism and Communism in respectively Germany, Italy and the Soviet Union. Finally, the erosion of *haute finance*, which has been traditionally seen as the mediator factor preventing the wideranging armed conflicts in the core, gave a more flexible way to authoritarian regimes in search for hegemony.

<sup>&</sup>lt;sup>18</sup> The crisis of 1873-96 refers to an economic situation in which the prices went down for over two decades, whereas the total industrial output continued to increase. Although there emerged a new wave of industrialization based on steel, electricity and chemicals, the return on capital massively decreased. The increasing pressure on revitalize the diminishing profits put gave rise to the mercantilist measures at home market in order to preserve indigenous industries from global competition and created imperialism abroad to obtain raw materials and new markets for the industrial outputs.

In sum, the Revolutionary Thirties was punctuated by the outbreak of the World War II. The armed conflict on the global scale brought about the completion of the hegemonic transition period and the systemic chaos came to an end with the rise of new hegemonic core country that would recreate and regulate the rules of the inter-state system and the world-economy in its very benefits.

### 3.2 The American Hegemony as Free Enterprise System (1945-1967/73)

The systemic chaos is the prevalent tendency in the world-system experiencing comprehensive politico-economic changes until the emergence of another hegemonic core power and historical records display that since the birth of modern world-system in the sixteenth century the hegemonic transitions are completed with the outbreak of a full-scale Thirty Years' War which finally produces a temporary stability and ceasing the systemic chaos.

Table 3.1

Thirty Years' War and the Hegemonic Transitions

Thirty Years' World War	Hegemonic Actor	Hegemonic Period
Spanish Wars, 1580-1609	Netherlands	1620-1650
Napoleonic Wars, 1792-1815	Britain	1815-1873
Two World Wars, 1914-1945	The United States	1945-1967/1973

Source: (Nye, 1990: 44)

In this regard, the First World War did not conclude with the clear success of one core country for the hegemonic mission with the clear success of one core country for the hegemonic mission. Quite contrary, the War left the hegemonic transition without resolving because of the two most powerful states' individual policies regardless of taking into consideration the systemic necessities. While Russia was forced to deal with the revolutionary events broke out in 1917, the United States retreated into its traditional isolationist posture (Goldstein, 1985: 432). As noted earlier, the full transfer of hegemony was realized with the end of the Second World War from which the U.S. emerged with a clear-cut economic and military

superiority vis-à-vis other core states and began to impose its political and cultural vision not only on the weak states but also other core states as well.

The politico-economic atmosphere in the early post-World War II bears a resemblance to the post-Napoleonic order in the early nineteenth century (Arrighi, 1999: 231). As it happened in the period of Napoleonic Wars, particularly, the Thirty Years' Eurasian Wars of 1914-1945 dramatically and profoundly influenced the outlook of interstate system due to its expensiveness (in money and other resources), disruptiveness (in trade, resource availability and labor management) and destructiveness (in human population and capital accumulation). In other words, the system was subjected to the chaos due to the lack of central rule. Borrowing the definition of Arrighi;

"chaos" and "systemic chaos" ...refer to a situation of total and apparently irremediable lack of organization. It is a situation that arises because conflict escalates beyond the threshold within which it calls forth powerful countervailing tendencies, or because a new set of rules and norms of behavior is imposed on, or grows from within, an order set of rules and norms without displacing it, or because of a combination, these two circumstances. As systemic chaos increases, the demand for "order", -the old order, new order, any order!- tends to become more and more among rulers, or among subjects, or both. Whichever state or group of states is in a position to satisfy this system-wide demand for order is thus presented with the opportunity of becoming world hegemonic (Arrighi, 1994: 30).

But at the same time, ironically, one core economy appears without suffering such systemic and wide-ranging physical devastation and it is the primary factor thanks to which the winner core power becomes powerful enough to determine the future of world-system. As Wallerstein clarifies,

The end of world war signals the beginning of the real hegemony...the world is weary of war, weary of breakdown of order, weary of political uncertainty, and therefore welcomes, or seems to welcome, the 'leadership' of the now hegemonic power. The hegemonic power offers a vision of the world...these visions are the basis of on which the hegemonic power claimed legitimacy for its hegemonic position, and this vision no doubt played a role in its ability to maintain world order (Wallerstein, 2002: 359).

Not surprisingly the United States had such a position in the immediate post-war period and would turn this chaotic atmosphere into a temporary and relative stability by using its 'extra' power resources in terms of capital, high technology, raw materials and other advantages. Because, as Patrick O'Brien notes that the United States was the predominant country, which benefited and gained massively from Thirty Years' War (O'Brien, 2002: 30). Hence, the United States assumed, willingly *or* unwillingly, the role of making the new world order in the early post-war period.

The destiny of the post-1945 era was drawn in three different zones of the world. Firstly, in Hiroshima and Nagasaki the United States proved its ability in holding the new and very effective tools of the future wars (i.e., nuclear technology). Secondly, the political future of the world-system (through the United Nations) and the principles of legitimatization of policy-making (i.e., the multiparty elections, liberal understanding and multilateralism) were decided in San Francisco. Lastly, in Bretton Woods, the future mechanisms of international monetary system (i.e., the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) *or* World Bank) and the underpinnings to reproduce the capitalist world-economy (i.e., market-oriented global liberalism, financial deregulation and free flow of goods and capital) were shaped by the open gravity of the American decision-makers (Arrighi, 1999: 231). Broadly speaking, the determination of future organization of the post-war world-system was structured by and centered on the United States.

As a matter of fact, it was the American economy, which emerged from the war with an unharmed position thanks to its continental insularity and with its function of becoming the 'new workshop of the world' production system during the conflict years. "The United States [was] in a unique position; not just to protect itself, but to profit even more massively than during the First World War from the escalating interstate violence and systemic chaos that ensued from the final breakdown of the British order" (Arrighi *et al*, 1999: 85). The post-war economic power was clearly successful for the U.S. in converting itself into political, military

and cultural hegemony. Thus, as Wallerstein points out, 1945 is the beginning year of the 'heyday of unquestioned US hegemony in the world-system' (Wallerstein, 1996a: 215).

## 3.2.1 The Rise of US Hegemony in World-Economy: The Reproduction of Capitalist Mode of Production

Being a hegemonic power requires a comparative advantage in the most profitable goods of production. The dominant actor initially gains its overwhelming position in economic spheres in order to keep the world-economy under its efficient control. In this regard, the constitutive elements of hegemonic economy are based on its clear-cut shares in production, trade and finance. Similar to the Dutch and British cases, the expression of American economic superiority was measured by generating decisive edges in firstly production of consumer goods; secondly, in commerce through creating best profitable markets for finished products; and finally, in finance by institutionalizing and centering the financial services and foreign investments (Chase-Dunn, Geim *et al*, 2002: 8). The most significantly and efficiently, the basic prerequisite of building an unquestioned hegemonic position in the interstate system is highly dependent on the attainment of economic prominence.

The hegemonic core state has an economic structure within which the productivity is highest compared to other core economies and the greater capital accumulation enables it to take the largest share of world production. Beyond any controversy, the American economy was such a unique position in the immediate years of the post-war period.

Initial priority for such a productive and hegemonic core state was the reconstruction of the capitalist world-economy in order to create profitable core, semi peripheral and peripheral zones to which its surplus would be able to export. By this way, the United States would not only have a huge market to transfer its over products in exchange for export revenues and economic and political concessions in

its favor. To fulfill the reconstruction project of capitalist world-economy and then to reintegrate the demolished core areas of the Western Europe into this newly creating structure, the American policy-makers organized an economic-centered conference at Bretton Woods. In Gilpin's words, the Bretton Woods system was directed toward several purposes;

It [the Bretton Woods system] envisioned a world in which governments would have considerable freedom to pursue national economic objectives, yet the monetary order would be based on fixed exchange rates in order to prevent the destructive competitive depreciations and policies of the 1930s...The International Monetary Fund (IMF) and [the World Bank] were created to supervise the operation of the monetary system and provide medium-term lending to countries experiencing balance of payment difficulties (Gilpin, 1987: 131-132).

However, in retrospect, there was inharmoniousness between theory and reality. First of all, reactivating the capitalist principles was closely correlated to recovery of the shattered and devastated core economics of the Western Europe. The structural matters [for instance the deficiency of economic coordination among non-hegemonic core states and failure of governments in economic decisions (Reifer and Sudler, 1996: 14)] and wartime problems [such as the bad weather conditions, hunger, disease (Reifer and Sudler, 1996: 14)] made more difficult the revival of core nations as it was planned in the Bretton Woods negotiations. Under such rigid and pessimistic atmosphere exacerbated dangerously with the problem of "dollar shortage"<sup>19</sup>, the trustworthy and wealthy operation of international monetary system could not be ensued.

In broader terms, as long as the hegemonic power is very dominant, it bears the liability of preventing the world-system from falling into a chaotic environment. In the light of these severe hindrances in front of the Bretton Woods arrangements, the system could not be fully enforced until the demise of dollar gap and full-

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<sup>&</sup>lt;sup>19</sup> In the early years of the post-1945 era, the American export surplus directed toward the Western countries lead to the occurrence of a considerable dollar shortage about \$10 billion dollars. Therefore, these countries lacked the foreign reserves to buy the manufacturing goods of American economy, see, Reifer and Sudler, 1996, p.15

convertibility of European currencies in 1958 (Calleo, 1987: 84). The system envisioned at the Bretton Woods aiming at reproduction of the global market and capitalist world-economy under the sponsorship of the U.S. remained on the paper practically and technically. This structural failure in refreshing the international monetary system compelled the Americans to take a new but more efficient measure for the restoration of world-economy in accordance with the capitalist ideas and the absorption of other core states towards the global market.

In this direction, the Marshall Plan (or European Recovery Program) was initiated in June of 1947 by the U.S. as "the stop-gap measure to deal with the dollar gap and to begin the task of forcing multilateralism on the European economies" (Reifer and Sudler, 1996: 16). The Marshall mission facilitated to cover the shortage of dollar, served the resurgence of core economies and helped hold them outside the sphere of Soviet Union. Gradually, the Plan, on the one side, strengthened the restoration of the European core economies; on the other side, it built a triangular pattern of trade relations between Western Europe, the U.S. and semi-peripheral and peripheral regions of the world (Rostow, 1997: 207). Through Marshall Plan the U.S. allocated massive funds and transferred enormous amounts of capital in order to generate a European economy in American interests. <sup>20</sup>

The dominant position in commercial relations with the European countries and other developing trading countries constituted a significant element of being hegemonic power. Theoretically, in order to maximize the potential gains coming from the advantageous trade relations, the hegemon state prefers and promotes liberalism at the global scale. Thanks to its competitive superiority in the production of the technology and capital-intensive goods, it is not unexpected that as the leading cost-efficient actor, the hegemonic state advocates the free flow of goods and capital in the world-economy (Tayfur, 2003: 12). The open door policies and non-

<sup>&</sup>lt;sup>20</sup> According to Robert Gilpin's calculations, the total amount of transferred money resources was reached \$13 billion dollars in the late 1940s and 1950s and 1,5 percent of American Gross National Product. In updated amounts of 1994, the all amount is over \$100 billion dollars, see, Gilpin, 2002, p.170

discrimination is the very interests of this productive economy. As Arrighi and Silver remark,

... "global liberalism" aimed at enforcing "the principle of the free flow of the factors of production (goods, capital and labor) throughout the world-economy". Global liberalism serves the double purpose of buttressing the sway of the hegemonic power's competitive edge, and "of delegitimizing the efforts of other state machineries to act against the economic superiority of the hegemonic power" (Arrighi and Silver, 1999: 24).

In this sense, the sign of the General Agreement on Tariffs and Trade (GATT) in 1948 helped the trade liberalization and abandonment of discriminatory policies under the auspices of the U.S. as promoter and organizer of such wave of reshaping world-trade networks. According to Gilpin, the GATT has rested on three main norms; (1) abolishing trade discrimination, and implementing and extending the Most-Favored Nation Principle (MFN) to all participants, (2) reducing the trade barriers and invisible trade restrictions, and lastly (3) ensuing reciprocity among participants without any exception (Gilpin, 1987: 191). Specifically, through a number of negotiation rounds, the GATT provided the institutional basis for reconstructing the worldwide trade networks to benefit of the United States.

In many respects, the US hegemonic system has been regarded as a kind of free-enterprise system. The cornerstone of free-enterprise system has been the multinational corporations that enjoy huge financial assets, an advanced technological infrastructure and that can operate enormous economic activities with a coordinated global strategy. The American-sponsored multinational corporations have invested in profitable and advantageous economic sectors, assigned huge amounts money in research and development and reduced the transportation costs by making direct investments in different countries of the world. The most importantly, they provided a considerable advantage to the United States by gaining economic privileges in the management of raw materials. As Gilpin remarks;

Until the 1970s, American multinational corporations by and large controlled the non-Communist world's access to raw materials, especially petroleum; this guaranteed

security of supply and preference for American costumers in times of shortages. This control was also exercised to moderate price increases during critical periods such as the Korean and Vietnam wars and on occasion was used as a source of political leverage (Gilpin, 1987: 241-242).

As a result of downward process of British hegemony and its inevitable movement towards the non-hegemonic status enabled the replacement of its role on acting as the global financial center which regulates the traffic of monetary exchanges and becoming the home country of global capital (or *haute finance*). Naturally as lived in both Dutch and British periods, the financial center of hegemonic state functions as the capital of global finance. New York's central position was the explicit result of growing world-economy with the very decisive American efforts in the restoration of capitalist economic relations.

With all its rivals destroyed during the thirty-year-long world war in history, World wars I and II, the United States, with New York its principal city, was left to capitalize on such accumulated advantages as organizational innovation in production (the "managerial revolution"), a transcontinental railway system, and a vast internal periphery (Lee and Pelizzon, 1992: 48).

Such unscathed position during both wars, concurrent with commercial and industrial development, gave the city a similar ability as seen in the cases of Amsterdam and London in extracting the investment funds and capital movements.

As the vital aspect of shaping a new world order, the American endeavors to reproduce the capitalist world-economy and the formation of intra-capitalist cooperation under US sponsorship within this newly structured global market also required the integration of Japan and the Federal Republic of Germany as major producers and customers in the system. The reconstruction of Japan as the regional workshop in Far East and the Federal Republic of Germany in Europe with the same mission would very substantial complementary part of American policy in renewing and expanding the capitalist principles toward these zones of the world-system (Reifer and Sudler, 1996: 16). Within this framework, just after the war both states turned out to be the vitally important American allies and their status is approved as

the member of capitalist bloc rather than the socialist one (Johnson, 2002: 345). Despite the harsh resistance of Western European countries which were already the integral pieces of American system, the U.S. attempted to make both core-oriented states as the full members of Western institutions in IMF, the World Bank, GATT and other international organizations (Gilpin, 1972: 62). More importantly, the U.S. allowed Tokyo and Bonn private and privileged entrance to the global market and by this way provided the rapid incorporation of these two disappointed states into world-economy.

Fortunately for the United States, the world-economy in the period between 1945 to the late 1960s was symbolized with the extraordinary growth rates for almost all actors in the interstate system. The term of 'Golden Age of Capitalism' is used to call this extension and growth era in the reproduced capitalist economy. Within this context,

There is little doubt that the quarter century following post-World War II reconstruction was a period of unprecedented prosperity and expansion for the world economy. Between 1950 and 1975 income per person increased on average by 3 per cent p.a., accelerating from 2 per cent in the 1950s to 3,4 per cent in the 1960s. This rate of growth was historically unprecedented for these countries and in excess of that achieved by the developed countries in their period of industrialization...In the developed countries themselves...GDP and GDP per head grew almost twice as fast as ever before, and there was a massive acceleration in the rate of growth of the capital stock. The increase in capital stock represented an investment boom of historically unprecedented length and vigour (Arrighi, 1994: 298).

As understood from this long quotation, the world-economy recorded historical and unprecedented expansion not only for the US economy but also for most of economies in the capitalist system. However, the world-economy would test completely different picture starting from the late 1960s.

### 3.2.2 Guard of Western Bloc: Hegemony in Interstate System

The period of real hegemony implies a period in which the systemic chaos comes to an end and a dominant state indicates its continuous efforts to restructure the destructed political and economic practices. The hegemon attempts to restore the interstate structure by enforcing widely accepted rules, norms and institutions and more importantly it seeks to persuade other core states to adapt the restructured capitalist world-economy and to hold them outside the control of 'enemy' state. In other words:

In the stage of real hegemony, it is essential for the hegemonic power to construct both an 'enemy' and a network of alliances. Alliances are not constructed in order to combat the enemy, but rather that the enemy is constructed in order to control allies. And that the point of the control of the allies is to make sure that they will bend their immediate economic and [political] interests to those of hegemonic power. Thus, creating that 'extra' advantage which is the purpose and prerequisites of hegemony (Wallerstein, 2002: 360).

The principal aim of the hegemon is to integrate not only peripheral areas of the world but also core and potentially core areas into the hegemonic-made systemic structures (Hopkins and Wallerstein, 1996: 3). While doing so, it follows double-sided venture. Firstly, it seeks to find the ways of absorbing other economies into the system. Secondly, as the generator of new world-system, the hegemonic core country guarantees legitimization of its own political and economic order (Hopkins and Wallerstein, 1996: 3). However, the Yalta order led to the change of the American vision envisaged in the wartime years. It is certain that "Truman turned Roosevelt's "one-worldist" vision of U.S. hegemony –which aimed at weaving the USSR into in new order- into a "free-worldist" policy of containment directed against the USSR" (Arrighi, 1999: 234). As mentioned earlier, the US policy-makers utilized and exacerbated the Soviet menace in order to control and unify its West European allies within an integrated capitalist coalition.

Economically, the U.S. assumed such a project by revitalizing the capitalist world-economy under the sponsorship of Bretton Woods institutions and the

Marshall Plan and articulating Japan and Federal Republic of Germany into the capitalist community. Yet, the disappearance of reconciliation possibility with the socialist front caused a hidden agreement regarding the future of euro-centric world-system. According to Wallerstein,

The Soviet Union was ostensibly an ideological rival and potentially an expanding power. In fact, it was quite easy to come an agreement in which the Soviet Union had its reserved zone (the 'socialist bloc'). There were four conditions to deal: there would be absolute peace in Europe; the two blocs territorially would be fixed; the two great powers would maintain internal order in their blocs; the socialist bloc would expect no help in reconstruction from the USA (Wallerstein, 1993: 1).

In political and military terms, Washington used the nuclear hegemony and the NATO as the fundamental organization of its mission. The US monopoly of strategic nuclear weapons gave it a strategic opportunity in preventing any challenge of the USSR in creating a "sphere of influence". From a different perspective, the combination of dollar hegemony in the Bretton Woods institutions and nuclear monopoly in NATO and other regional security organizations provided quite decisive and unprecedented authority in the reorganization of the interstate system and the reproduced capitalist world-economy (Calleo and Rowland, 1973: 87).

The recovery and reintegration project of Western Europe and Japan required massive military and monetary assistances. The supply of military protection against the Soviet Union through the NATO, ANZUS and US-Japan Military Pact within a 'free-world' structure created dependent relationship for the other core and peripheral states. As predicated, their economic, political and military reliance on the American power resources also produced its cultural fruit. The increasing popularity of 'Americanization', the Coca-Cola culture, New York's role in becoming world's art center as well as financial center found its expression in firstly other industrializing core states then nearly all allies of the U.S (Wallerstein, 1996a: 216-217).

The hegemonic core country is the actor, which uses its status to convert the exploitable opportunities to its profit. It is important to be aware of the fact that it

was the Cold War, which legitimated strongly the US hegemony (Keohane, 1982: 70). The aggressive and expansionist policies pursued by the USSR in the eyes of Washington and many European governments gave a robust power to the United States in order to organize the military structure of capitalist bloc to its very benefits. In this connection, restructuring the West Germany and Japan and the implementation of Marshall Plan also followed the unusual rearmament project of the American allies. The rearmament efforts directed at this aim;

...Neither European integration nor currency realignments [was] adequate to maintain a significant export surplus or to continue American-European economic ties after the end of Marshall Plan. The new line of policy they proposed –massive U.S. and European rearmament- provided a brilliant solution to the major problems of US economic policy. Domestic rearmament would provide a new means to sustain demand so that the economy would no longer be dependent on maintaining an export surplus. Military aid to Europe would provide a means to continue providing aid to Europe after the expiration of the Marshall Plan. And the close integration of European and American military forces would provide a means to prevent Europe as an economic region from closing itself off from the United States (Arrighi, 1994: 297).

Thus, the military rearmament of the Western Europe helped maintain the American gravity in the continent, created a large market for its arm surpluses and made dependent the European countries, those who felt the need for the high technological weapons to deter any Soviet aggression, on the American military. The transfer of American weapons to the European states ensured not only the physical protection of these countries but produced a considerable monetary liquidity stimulating the world-economy to further expand. By far, the rearmament endeavors ensured the American policy-makers to capitalize the tense political atmosphere of the Cold War days.

By the late 1960s, all these glory days started to wane in politically and most remarkably economically. The US economy has experienced severe economic contractions and faced political and military troubles in the world-system it created. The difficulties in political, military and economic spheres did not only deteriorate its robust relations with its allies in the core but gave rise to the loss of semi-peripheral

and peripheral zones. The overall consequence was the entrance of the U.S. to the decline period.

### 3.3 Decline of American Hegemony and the Rise of Multicentricity Since 1967/73

There are political, economic and social turning points in the downward process of the hegemonic powers. They are such breaking points affecting not only the constitutive elements of hegemonic core power but also the world-system as a whole. In the light of this fact, the period between 1967 and 1973 became the dramatic and critical years for the smooth operation of the American hegemony and the world-system it had reproduced just after 1945. This was such a transformative period experiencing the humiliating defeat in Vietnam for the American state, signaling the economic deteriorations, witnessing the growing economic and political power of the Third World countries, removing the Bretton Woods system and disappearing the strong ties in the United States, Western Europe and Japan triangle. In broader terms, 1967/73 underscored the very bases of American hegemonic position and the capitalist world-economy began to go into downturn. Now, the United States is a hegemon in decline.

By far, the 1950s and most of 1960s were the golden years of capitalist structure organized and supervised by the United States. The world-economy functioned in a straightforward and progressive manner throughout these years. However, as it was seen in the Dutch and British hegemonic systems, the American decline not only eradicated its own roots but also caused a systemic crisis in the world-economy (Arrighi *et al*, 1999: 88). To put it another way, the decline in the American hegemonic position left the world-system in a rather fragile and vulnerable nature.

#### 3.3.1 The American Decline in the World-Economy

The functions of hegemon are solely related to the operation of world-economy. The hegemonic economy occupies such a central location in the system in which the steady growth of other countries depends on the economic successes of dominant core country (Boswell, 2004: 518). However, as the time passed, the hegemonic core state *relatively* loses their unchallenged dominant position. This generalization is appropriate for the American case. In the critical period of 1967/73 the productive, commercial and financial superiorities of American economy started to wane and deteriorate remarkably.

At the first sight, the basic economic reason in the decline process of US economy was clear. As Western Europe and Japan upgraded and industrialized their devastated economies, they initiated to catch up the American economy technologically, productively and organizationally. As Chase-Dunn expressed, "latecomers have an advantage in that they can adopt newer technological innovations, while earlier investors must wait to recoup initial investment" (Chase-Dunn, 1982: 83). The massive and high-technological investments in most profitable sectors (for example, automobiles, electronics, steel...) of the late-comers did not only end the indisputable US domination in these profitable industries but also created a market for products of newly developing core economies (such as the rise of Japan and European automobile and computer technology). In other words, Western Europe and Japan gradually entered into the American market as well as the other markets in the world. Relocations of economic spheres among core states of the world-economy generated a more complicated picture in which the economic affairs were not no longer hegemonic centric and in which the mutual competition for holding more market shares intensified and the very underpinnings of economic cooperation among core states on which the great economic boom of the 1950s and 1960s was based considerably waned. Definitely, such redistribution of economic power would have political implications as well. I will deal with this issue later in the following pages.

Additionally, the participation of Third World countries economically in this route brought together the fall of American shares in global market. The relative dissemination of new technologies from the hegemon to the core and semi-peripheral states put those countries' economies on a more assertive route by improving their competitiveness. Relatively, semi-peripheral states were quite successful in applying the modern technologies more cheaply and this was the real factor that motivated those states to begin core-like production. Such economic advance by Third World countries changed the outlook of world-economy (Arrighi, 1994: 322). Specifically, the most cost-efficient use of labor in the semi-peripheral zones created a disadvantageous environment for the hegemonic core economy and thereby the conditions for the economic rivalry in the global market have become more and more even (Vayrynwn, 1983: 397).

The OPEC shock in 1973<sup>22</sup> by spectacular booming the prices of crude oil produced such comprehensive consequences for both US supremacy and the world-economy. Most of them have not been able to be resolved even today. The suddenly occurred energy crisis accelerated the crisis of US hegemony. Most evidently, in financial terms, the extraordinary increase in oil prices on the American budget became rather tragic. To enlighten, the American expenditures going to oil export raised from \$ 5 billion in 1972 to \$ 48 billion dollars in 1975 in a few years (Reifer and Sudler, 1996: 28). However, the redistribution of money among the national economies has become a crucial reason remapping the world-economy;

...The dramatic rise in the costs of fuel energy had the obvious consequence of increasing the costs of production everywhere, and hence served as a pressure to reduce world production, which thus brought it more into line with world...In the end,

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<sup>&</sup>lt;sup>21</sup> Core-like production refers to the production of goods that requires the high and capital intensive technology, skilled worker requesting high-wage. In contrast, the by peripheral production, we means the low and labor-intensive production with unskilled and low-wage workers, see, Chase-Dunn, 1982, p. 94.

p. 94. <sup>22</sup> The oil crisis taking place in October 1973 had two phases: the first, a reduction in oil production; the second, an increase in prices. Between October and November 1973, Arab countries comprising the Organization of Arab Petroleum Exporting Countries (OAPEC) decided to prohibit exporting petroleum to the United States and the Netherlands, and to reduce the production of petroleum by 25 per cent. The embargo against the Netherlands was applied in retaliation for the country's close relations with Israel. However, the main political target was the United States.

this money was redistributed in part as rent consumed by oil producers (most of whom were state enterprises in a limited set of countries), in part as rent (or exceptionally high profits) consumed by transnational oil corporations, and in part as deposits in banks in core countries (Wallerstein, 1996: 212).

As clarified, this harmful change has brought about the negative conversion of mass production and massive consumerism at American home market and the augment of production costs. In other words, the US economy faced the reality that the characteristic of being the most cost-efficient producer in the world-economy was disappearing. Such dramatic change in the oil prices forced the US economy to turn from the production-centric economy to the financial-centric economy to keep the ratio of profits. The petrodollars reentering into American banks and other financial institutions paved the unavoidable way for converting financialism. As it will be elaborated in third chapter, such transformation from production to finance in search for profit in the American regime constituted the last phase of hegemonic decline. Additionally, the monetary crisis in the American economy, which had already started due to the troubles resulting from the Vietnam War and the disoperation of Bretton Woods system, placed some inflationary pressures in the American and accordingly the world-economy (Arrighi, 1982: 63-64). The oil price shock created a new motivation for the actors of capitalist bloc. Economically, they have begun to rival more severely to benefit mostly from the newly emerging atmosphere in the world-economy throughout time. As a result, intensifying competition among the actors in the core has given rise to the dissolution of former economic and political solidarity in the Western bloc. Such reorganization in the hierarchical relations has eroded the very bases of American hegemony.

As it is noted earlier, the productivity advantage is the first sphere disappearing during the hegemonic decline. Once the capitalist European core economies caught up and even surpassed the American economy in terms of productivity, the next turn is the shift of trade balances. Particularly, in the 1970s, with the recovery of other core states, the comparative advantage in trade started to tilt towards newly and re-industrialized economies. The privileged and unrestricted

access of Japanese products and the economic integration model among Western Europe countries with the EEC project contributed extensively the increase of those countries trade advantages compared to the U.S. In addition, the fact that the global liberalism sooner or later undermines its own foundations because it enables other developing countries to benefit from the trade advantages and very importantly from the spread of technologies. To borrow an expression from Arrighi and Silver's *the Chaos and Governance in the Modern World-System*;

...global liberalism..."breeds its own demise" because it makes more difficult for the hegemonic power to retard "the spread of technological expertise" to competing states, and because maintaining "uninterrupted production at a time of maximal global accumulation" involves "the creeping rise of real income of both the working strata and the cadres located in the hegemonic power". Over time, these two tendencies undermine the competitive edge of the hegemonic power's enterprises in production, then in commerce, and then in finance (Arrighi and Silver, 1999: 24).

Implementing the free trade principles and liberal ideas made it easier the dissemination of technology which guarantees the most cost-efficient production and then accordingly gave way to the comparative trade advantages. Western Europe and Japan economies were staying on such profitable occasion. Therefore, they did not hesitate to challenge the American overwhelming status in the capitalist world-economy. Following this rearrangement in economic sphere, the unicentric structure of world-economy transformed and took the multicentric form with the intensified competition. Particularly, other core states' corporations completed their capital accumulation and they started to compete more severely with the U.S. multinationals. Being the gravity center of capitalist organization, America was subjected to share its undisputed status with the rising regions of the world. The North America was no longer the only center of the economic affairs.

As happened in the two earlier hegemonic experiences, the loss of productivity and commercial advantages leads to shift towards financialization of hegemonic economy. The switch to multicentric competitive environment compels the hegemonic economy to concentrate its efforts on continuing its superiority at

least in finance. This structural conversion from investment in manufacturing to financial field in order to maximize the profit weakened the American position in becoming the 'home of mass production' in the global market. Through investing funds and monetary bonds, financial invasions of multinational firms enjoying American origins and exchanges in New York money markets constituted the new but last means of American endeavors in maintaining its hegemonic economy.

The accelerating deficits of the American economy in balance of payments system and in trade, the economic expansion of Western Europe and Japan attempting to relocate their positions in the core vis-à-vis the U.S. and the psychological impact of political and military failures in Indochina prepared the conditions for the demise of Bretton Woods order. Making a comprehensive technical explanation regarding the causes of end of Bretton Woods is not the focus of this study. However, in simple terms, according to long citation below, there are two dynamics determining the faith of the Bretton Woods codifications;

First, the system was inherently unstable because the mechanisms for adjustment of exchange rates were so flexible. This was especially true for the United States where the value of dollar also became the measure of the stability of the world economy, especially in the minds of U.S. leaders. The economic relations that developed after 1948 were structured by these fixed values even as the shift from U.S. surplus to deficit increasingly demanded adjustment of exchange rates. The world of 1971 was significantly different from the world of 1945-1950, but the Bretton Woods system made few accommodations to that reality.

Second, and perhaps most reflective of those changes, was the massive growth of the market power of international capital and its impact on fixed rates. This is reflected in the emergence of transnational actors –multinational corporations and international banks- and the vast Eurocurrency market over the years from 1958-1973. As late as 1966, the Eurocurrency market and U.S. international reserves were of approximately equal size. But by 1973 the Eurocurrency market was almost nine times bigger than U.S. reserves. Such an immense collection of resources was capable of overwhelming even concerted governmental action. Between 1971 and 1973, these new transnational actors collectively lost confidence in the system of fixed exchange rates and the ability of governments to establish any viable system. Eventually, in 1973, the governments

of the capitalist world were forced to accept the immense market power of these actors and adopt a new system of floating exchange rates (Lairson and Skidmore, 1993: 89-90).

It can be understood from the explanation, the replacement of the fixed exchange rates with the floating exchange rates paved the way for a more flexible atmosphere for the accumulation of money (Calleo, 2002: 252) and brought an end to the American-centered monetary system. Rather than the harsh governmental authority in the capitalist world-economy, transnational corporations have increased their leverages in a system in which the U.S. was no longer the ultimate manager in organizing the monetary affairs. The U.S., in addition, has begun to fail in assuming the role of central bank of the world-economy and the lender of last resort to prevent the financial crises. To strengthen better, the climb in the number of financial crises can be taken as evidence to prove this lessening authority of the American economy. In other words, the departure of European countries from the Bretton Woods System was an overt challenge to the U.S economic interests.

The shift from hegemonic economy towards the non-hegemonic dominant economy was realized in the course of six years between 1967 and 1973. In terms of monetary affairs, the fall of US economic hegemony was more obvious and the basic cause of the initial erosion of American economy was the financial difficulties with which U.S. faced during the wartime. Due to the growing burden of the Vietnam War, the American budget gave the balance of payments deficit for the first time in its history. Such negative impact of the war put the US economy 'under-stretch'. The gravity of dollar as the dominant currency as an exchange means started to be discussed because of the hastening inflation in the country (Krasner, 1982: 42). Some scholars have claimed that the dollar has lost its value relative to the other currencies in the global market (Wallerstein, 1996a: 218).

#### 3.3.2 The American Decline in Politics

In the long-term, decline is inevitable. However, it is clear that economic dimensions of the American hegemony did end earlier than its political and military dimensions. Since the hegemon's fall occurs globally and creates systemic consequences, the basic result of its decline is the power vacuum that would be used by its competitors. Following the economic troubles of American hegemony, the coming of political crisis was an expected issue and the political, military and ideological strains in the American regime came step by step. Without any doubt, the Vietnam War became the triggering factor to reevaluate the unchallenged US primacy in the interstate system. Arrighi describes, as a result of the War, "US lost most, if not all of its credibility, as the policeman of the free world" (Arrighi, 1994: 320-321). The impact of the military defeat in Far East became the instability in the Transatlantic alliance.

...the breakdown of the regime of fixed exchange rates coincided with the growing troubles of the US army in Vietnam from the Tet offensive of early 1968 to the beginning of the withdrawal of US army after the peace accords of 1973. At the same time, the increasing tribute in blood and money exacted to fight a losing war which had no clear direct bearing on US national security precipitated a major crisis of legitimacy of Cold War ideology (Arrighi, 1994: 320).

To be sure, the periods of multicentricity witness the deterioration of balances politically and economically and create more equal atmosphere in the world-system. Accordingly, peaceful and stable relations are replaced with the conflictual and instable ones among core powers (Chase-Dunn, 1982: 81). The autonomous policies of Western European countries and particularly West Germany by upgrading their relations with the other countries in the Socialist bloc through bilateral political and commercial agreements began to damage the capitalist interstate system envisioned by the American power. For instance, the West German policies in the last years of 1960s, so-called *Ostpolitik*, aiming at building up its ties with the Eastern countries and the USSR<sup>23</sup> were an overt challenge the US political hegemony in the capitalist

<sup>&</sup>lt;sup>23</sup> In this direction, the Federal Republic of Germany signed a number of comprehensive treaties with the Soviet Union. In 1969 Nuclear Non-Proliferation Treaty and in 1970 Non-Aggression Treaty were

bloc. Clearly, *Ostpolitik* presented a motivated model for the other actors in the capitalist bloc. To a certain extent, the most basic evidence of the fact that the U.S. was rapidly losing its previous superiority in the interstate system can be found in these independent political motives of the other core actors in the capitalist bloc.

As the U.S. was loosening its previous control on its allies concurrent with the intensifying attack of Tet in Vietnam, the general atmosphere of the interstate system has changed as well. Both internally and externally, the US authority, leverage and power were being questioned regarding the policies pursued by the American governments. As a reflection of this tense situation, in 1969 Nixon government under pressure decided not to intervene the every zones of the globe and abandoned the Containment strategy being implemented since the Korean War )Reifer and Sudler, 1996: 27). Such reversal in the American foreign policy gave rise to the dawn of a new state of affairs in its relations with the USSR and détente became the determinant feature in the interstate system until the beginning of the so-called the Second Cold War in the 1980s. That is to say, the crucial era of 1967/73 brought together the demise of American image of being the supervisor and policeman of the world-system.

The rise of Third World<sup>24</sup> countries was another political ingredient having an effect on the American-centered world-system. As the states that were under the yoke of colonialism initiated a world-wide decolonization, the inter-state system started to gain a new and unusual political outlook. As the time passed, Arrighi explains, "the full sovereignty of Third World states constituted a latent and growing challenge to US world power, potentially far more serious than Soviet power itself" (Arrighi, 1994: 321). Prior to their independence movements, the Third World countries had been occupied economically by core economies aiming at maximizing their profits. Through the exploitation of natural resources and labor forces, the core

concluded. Finally, the West Germans formally accepted the post-war territorial arrangements in Eastern Europe. See, Reifer and Sudler, 1996, p.27.

<sup>&</sup>lt;sup>24</sup> In reality, the term of 'Third World' belongs to the Cold War years. It refers to a group of states which is not either the member of 'First World' (i.e., the Capitalist system) or the member of 'Second World' (i.e., the Socialist Bloc).

countries had created a quite appropriate economic environment for the unrestricted and flexible accumulation of capital (Arrighi, 1994: 321). In other words, the very crucial linkages between the First World and Third World economies constituted the significant backbone of the smooth-running of the capitalist world-economy to the interests of the core economies and particularly the U.S. Although the US has never been a colonial power, it benefited from the economic ties between the peripheral and core zones thanks to its commercial, financial and productivity advantages. This picture strictly reversed by the time they began to declare their freedom.

The exercise of full sovereignty rights by Third World states was bound to reduce this flexibility, and eventually eliminate it completely. Should these states feel free to use their natural and human resources as they saw fit –including hoarding or mobilizing them in the pursuit of domestic, regional or world power, as sovereign states had always felt free to do- the pressure on supplies generated by the expansion of the US regime accumulation would inevitably implode in the form of "excessive" competition within and among First World States (Arrighi, 1994: 321).

Politically, the challenge of the Third World countries followed the American defeat in Vietnam. The basic outcome of the war for underdeveloped peripheral and semi-peripheral countries was that the U.S. as the hegemonic power in the world-economy and inter-state system had remained incapable of thwarting the success of the world's one of the weakest states. The loss of US credibility in the eyes of many Third World countries encouraged them to pursue more assertive policies. The result was the increase of independent actors in the world-system. The political troubles that the closest American allies experienced and the topple of US client-states in Iran and Nicaragua, the final collapse of European colonialism in African countries, the endeavors to fix again the political map in South Asia and Indochina increasingly opened the discussion for reevaluating the unchallenged American image in the world-system (Arrighi, 1994: 321-322). In other words, there emerged a substantial reversal in the status of core-peripheral states and in a sense, the U.S. felt that the management of the world-economy and interstate system was not completely in its hands.

As it is seen, following the trouble years of 1967/73, the world-economy has entered into a contraction period which has aggravated with the relative decline of American hegemony. One characteristic of the crisis period in the world-system has been the (re)emergence of the Western Europe as an economic and political actor. In the same way, the spectacular rise of Japanese economy despite of its shortcomings in the political arena and the over-strengthening of China as the hegemonic candidate in the twentieth first century by raising its status to the third rank in the worldeconomy have been the underlining developments in the world-system. It is clear that the U.S. hegemony in the world-system has been in decline since the period of 1967/73. Although it has exhibited some exceptional behaviors from time to time, the American position specifically in the world-economy has been going to wane. The overall trend that has been experienced in the relative decline of the U.S. shows analogous points with that of Britain in the late nineteenth century. To consolidate such argument, within a comparative perspective it is useful to analyze the production, commerce and finance as the vital aspects of establishing a hegemonic position. The fourth chapter serves this purpose of the study.

### **CHAPTER IV**

# COMPARATIVE ANALYSIS OF THE POLITICAL ECONOMIES OF TWO HEGEMONIES

As it is clear in its title, this thesis is devoted to analyze the two hegemonic powers within a comparative perspective in order to support my main argument that the current crisis and relative decline of the US hegemony in the world-economy since the 1967/73 displays the similar characteristics with the crisis of the British hegemony in the late-nineteenth century and its decline in the early-twentieth century. Therefore, this part constitutes the core of this study. It mostly deals with the comparison of the British and American hegemonies by focusing on three domains. The real hegemony exists by the time one core power has a comparative advantage in the fields of production, commerce and finance. To explore the analogous movements in decline of British and American cases, it is compulsory to concentrate on these three domains in the economy forming the hegemonic position. In this respect, the analysis of production, commerce and finance separately but in a comparative perspective serve the primary purpose of this study.

What is the impact of contraction in the hegemonic production of Britain and U.S.? To what extent the production, commerce and finance did become decisive ingredients in the rise and fall of hegemonic actors? Do Britain and U.S. exhibit similar trajectories in terms of the outlook of innovative capability, productivity, GNP and shares in the global market? What are the causes of contraction in the commercial status for both hegemons? Which reasons did play crucial role in the transition period from production and commerce-centric economy to the finance-centric economy? What are the links between the financialization and hegemonic downturn? From which perspectives the decline of British and US hegemonies display similar trajectories in those three domains?

### 4.1 Comparative Analysis in Production

In the preceding chapters it is hypothesized that a hegemonic position is secured through the establishment of dominant position in the economic spheres of the capitalist system and the core country occupies comparative advantages over other countries in the fields of production, commerce and finance respectively. But above all, the basic prerequisite to form a hegemonic economy is to acquire the healthy superiority in the global market vis-à-vis other non-hegemonic core powers. From a broader perspective, the hegemonic position in the world-economy is realized by the time the predominant actor organizes and additionally obtains the lion share of world production. As a reflection of this formulation, the loss of hegemonic situation follows the reverse pattern. When a hegemonic core actor enters into the decline process, the first domain that will be gone down is the production. That is to say, the first step in the hegemonic downturn period is the loss of comparative production advantages. While the domination in production emerges initially during the transition era from competition to hegemony, similarly its disappearance is firstly seen in the course of transition from hegemony to competition (Bousquet, 1980: 51). This conceptualization is relevant for the cases of British-centered world-system in the nineteenth century and the American-centered world-system in the second half of the twentieth century.

As its reasons and patterns are well described below, in the last quarter of the nineteenth century, the British began to lose, 'if not hegemony', its unchallenged status in the production. Likewise, the United States has been severely defied in the world production hierarchy by non-hegemonic core economies starting from the transition period of 1967/73 onwards. I have frequently remarked in this study that the US downward from the status of unquestioned hegemon indicates similar features in many respects with that of Britain. The decline cases of both hegemons in world production system are also relevant to this argument. In this section, the basic purpose will be to present smooth and reliable evidences to show the existing analogies between the British and American declines in the world production

structure. Yet, at this conjuncture, it must be particularly emphasized that the term of 'decline in production' refers to the presence of relative decline in the world-economy. Because, the hegemon does not completely lose its economic growth but it loses previous economic advantages compared with rapidly expanding other core economies.

The world-production system in two different periods of the nineteenth (1815-1870) and twentieth centuries (1945-1967/73) exhibits some analogous characteristics in many terms. At first, both eras experienced the unique and also globally affected technological upswings in the production activities. In other words, the ties between technology and production reached the unusual points. Therefore, the efficient adaptations of high technological production styles gave one of the core actors the great opportunity to convert the pluralist production hierarchy into a hegemonic production. Secondly, both periods witnessed the unprecedented rates of growth in the total world output. The level of general productivity of the worldeconomy increased extremely with the undeniable impact of technological progress. Except for the period of Two World Wars or Thirty Years' Wars (1914-1945), the global market expanded at the spectacular rates was never seen in the earlier decades of the modern world-system. Thirdly, these were the peculiar epochs during which the world-economy was extraordinarily integrated in terms of the free flows of capitals, goods, services and information/technology. This integration became the triggering dynamic in the occurrence of unique global market instead of divided national markets. As the last point, both decades created unbeatable hegemonic powers, which enforced the political and even military authority over other actors in order to regulate the world-production in its very interests.

Viewed in this manner, the first category to compare the British and American trajectories is the changing patterns of productivity capacities of both hegemons. While doing this, the crucial factor is the technological progress and the scope of its impacts over the rise and decline of hegemonic economies. Without explaining the changing innovative capacities of the hegemonic core powers, the

analogical characteristics of both actors in the decline periods cannot be understood well. Because the basic argument here is that the innovative capability and the capital accumulation are the two defining facets of the formation of hegemonic production and that the negative orientations in these two vital factors compared with the rising non-hegemonic core economies bringing about weakening the hegemon's supremacy in the world production.

Since the emergence of capitalist world-economy in the sixteenth century, the core zones of the world have become the centers of economic growth and technological progress. The newest methods of production and capital-centric developments have been mostly observed in those areas of the world-economy. (See table 4.1) However, due to the very impact of various factors (such as the absence or uneven endowment of natural and material resources, the limited accumulation of capital or political instabilities), all actors in the core have not been able to pursue the equal status in the world-system. The diversified and uneven levels of capital accumulation and inability of 'being the first country that innovates' have created considerable gaps between the hegemonic power and other countries located in the core.

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<sup>&</sup>lt;sup>25</sup> For Marx, the capitalist mode of production is the first economic structure that not only promotes but also puts pressure on the national economies to develop new technologies. The holders of capitals have always assumed an active role in technological leadership (although this leadership sometimes becomes temporary) through it they may easily increase their 'extra profits'. See, Lars Mjoset, 1990, p.23

Table 4.1

Major Sectors in the Hegemonic Cycles

Years	Major Growth Sectors	Technological Leader(s)	Challengers to the Leader
1780-1830	Textiles and iron working	Britain	France, German states and Holland
1830-1870	Railways, steam engines and textiles	Britain	France, the United States and Germany
1870-1930	Chemicals, steel and electrical engineering	United States	Germany, England, France and Japan
1940s-1967/73	Aircraft, motor vehicles, petrochemicals and synthetic materials	United States	European Union, Japan, China and India Russia (the Soviet Union)
1967/73-2000s	Computer technology, electronic equipment, fiber optics, digital technology and robotics	United States, Japan and European Union	China, India, Other Asian Countries

Source: (Thompson and Vescera, 1992: 510-511)

The technological leadership in production and the maintenance of innovative skills are the determinant ingredients to a certain extent in the up and down turns of hegemonic powers. As Bousquet indicates, "it is uneven distribution of radical innovations in the methods of production of whatever type that generates the kind of disparities at the center upon which production supremacy will rest" (Bousquet, 1980: 53). In this connection, the hegemonic economy is the economy, which uses the most efficient and post-modern means of production. In this regard, the hegemonic economies espouse capital-intensive, labor-savings and technological-centered styles of development.

For production supremacy to take place, new methods of production have to be invented in one or more sectors. Production *superiority* remains a necessary condition of production *supremacy*, for major innovations in production methods are much more likely to happen in a national economic area operating at the limit of known technology than in those where the best practice has not been generally adopted. Such major innovations (technological or managerial) will take place, as we have already suggested in a given sector of production of the future hegemonic power: ... textile (spinning devices) and mining (the steam engine) in the English case, and electronics

in the American case. It is a characteristic of major innovations that they will cause numerous multiplying effects in other sectors of production. Thus, ...in the case of England, mechanization was extended, along with the steam engine, to a variety of process of production. In the United States, progress in the electronics sector (namely the invention of computers) revolutionized the management of enterprises across the board (Bousquet, 1980: 56-57)

It is in short, the hegemonic country must explore impressive and revolutionary innovations that is appropriate for the necessities of the era in order to construct an overwhelming position in the capitalist oriented economy. <sup>26</sup> In specific terms, the hegemonic economy is the economy, which changes the hierarchy of the system in its benefits. Bornschier and Chase-Dunn clarifies, "a technological style only starts to emerge when the old style reaches its limits of further diffusion and profits based on it decline" (Bornschier and Chase-Dunn, 1999: 287). Once the revolutionary technological progresses are made by the hegemon, the productivity advantages, per capita income and Gross National Product (GNP)<sup>27</sup> demonstrate a clear-cut jump relative to other core countries. While the technological advance constitutes an essential dimension of the hegemonic position, as the second step, its productivity superiority comes into existence just after the successful implementation of those fundamental innovations in the hegemonic economy. Therefore, the combination of technological leadership and productivity advantages promotes the hegemon to pursue assertive economic policies in the global market.

However, the disappearance of unchallenged status of hegemonic economy follows the reverse cycle. Basically, the declines in production sphere and in world-market are cyclical tendencies in the historical capitalism. The advantageous position in the production is 'short-lived' as the same in the commerce and finance. Because of exported and unrestricted flow of capital and hence the technology transfer toward

<sup>&</sup>lt;sup>26</sup> In the Dutch hegemonic case, this sort of new method of production to change the very operation of the world-economy radically was the shipbuilding. The successful innovations in shipbuilding and its application to the sea transportation gave a considerable advantage to maximize the profits. Thanks to the booming commerce which was being based on trade of luxury goods in the seventeenth century, the Dutch economy benefited massively from the sea transportation.

<sup>&</sup>lt;sup>27</sup> Total GNP combines both economic development and economic size.

non-hegemonic core and peripheral zones give a chance to other actors to catch up the existing hegemon, it is not surprised that as those 'newly coming' powers espouse and adapt the technological benefits disseminating from the hegemonic economy, their productive capability and competitiveness improve more rapidly comparative to the hegemonic power. To quote Wallerstein, with the rise of new core powers, the hegemonic economy has to abandon its characteristic of being the most efficient producer of most profitable goods of the time (Wallerstein, 2002: 359).

In the light of these elements clarifying the economic decline of the hegemonic powers, the structural characteristics of the British and American systems and the crises they experienced in the sphere of world-production display some parallel points. As mentioned above, the dissemination of technology and the improvement of innovation abilities of the non-hegemonic core powers became the first and foremost determinant bringing an end to the preeminence of the both hegemonic actors in the world-economy. In the case of Britain, the last quarter of the nineteenth century marked the period in which the radical innovation methods made by the British fell behind the secondary core power. In the words of Bousquet,

It appears that the most advanced countries on the continent (as well as in the United States) had reached the technological level of England by the late 1860s, and after 1870 at the latest, the latter was certainly no longer the dominant center of technological innovation. To be sure, inventive genius had not dried up there, and the British still made numerous and important inventions. But some of them were adopted more rapidly, and on a larger scale, outside their country of origin. Furthermore, in the new and decisive domains of future industrial growth –chemicals, electricity, internal combustion engines, machine tools- almost all the important inventions were being made elsewhere (Bousquet, 1980: 64).

Thereby, as theoretically explained in the first chapter of the study, the two main powers emerge as the challengers for the possible hegemonic transition. In accordance with this assumption, in the 1870s, they were Germany and the United States that began to match the technological innovation capability of the British economy and that aggravated the crisis of the *Pax Britannica*. Apart from, the equalization of innovative skills by both hegemonic candidates, they surpassed the

British economy in the use of radical and new methods of production. Britain's relative downward sprang from its failure to join and adopt the influential techniques of second wave of industrial revolution, which are based on steel, chemicals and electricity. In contrast, as Gilpin reminds,

...the heart of British industrial life continued to be the great industries of the industrial revolution of the late eighteenth and early nineteenth centuries; iron, textiles, and coal. Although these industries remained strong and generated exports, they had ceased to be the theaters of innovation in technique and organization. Its leading sectors were no longer at the forefront of economic growth (Gilpin, 1975: 91-92).

In the post-world wars era, the improvement of technology in the fields of petrochemicals, aircraft, motor vehicles and electrical engineering were the primary factors that gave way the rise of American hegemony and it was only the Soviet Union that challenged the US domination in the major sectors of world production system.

When we came to the 1970s, these two powers challenging the hegemon in terms of the technological development have been the European powers (currently the European Union) and Japan. However, the mounting and active investments of American multinationals utilizing from the innovative characteristic of the US economy in Europe and East Asia and the recovery of these two economies which restarted the accumulation of capital in the 1960s have caused, implicitly or explicitly, the loss of unquestioned technological supremacy of the American economy. Like the British experience in the late nineteenth century, starting form the turning point of the American domination in 1967/73, the revolutionary innovation ability of the US economy started to slow down. Statistically, in the 1950s, the heydays of American hegemony, 82 % of the radical innovations fostering its productivity infrastructure originated from the home economy. In the critical period of 1967/73, this ratio dropped to 55 % (Bousquet, 1980: 65). It is obvious that now the US economy is not alone in the technological progress and with the reinstitution of innovative capability of Europe and the birth of Japanese style in new wave of technological era; the American technological domination has significantly waned.

In other words, such challenges by two actors have made the American technological authority questionable.

The period of hegemonic transition also refers to the rise of an economic environment in which dualist or pluralist structure occurs in world-production. The successor hegemon(s) are inclined to undermine the already diminishing productivity capabilities of the existing hegemon in decline. As noted above, the transfer of technology from the hegemonic core power to the non-hegemonic core and peripheral zones closely affects the levels of productivity held by the dominant economy. As the productivity gap closes between the hegemon and other actors, the deterioration of unquestioned superiority is inevitable. In this connection, the export of technology in a market-oriented capitalist mode of production system brought about the occurrence of negative fluctuations in both the British and American cases. Therefore, only description of the slowing innovative capability of the hegemonic power is not sufficiently alone to comprehend the economic slump of hegemonic actors. The examination of comparative growth rates and ratio of productivity is needed to put our analysis into a consistent base.

Already in the 1870s, first Germany and the United States and then other secondary core powers made a considerable progress in order to catch up the British productivity through the effective use of spreading technologies. The remarkable point is that the hegemonic declines go in tandem with the decline of productivity. Starting from the downward process of the hegemonic core powers, in both the British and American cases, the relative supremacy in terms of productivity also began to disappear. The hypothesis that the hegemons initially gain their status by establishing a specific advantageous edge in industrial productivity which enables its economy to use the labor-saving methods is also relevant for the period of real hegemony. However, it is the fact that the first dimension that vanishes in the decline period is the productivity supremacy of the hegemonic economy. Indisputably, as can be interpreted from table 4.2, in both hegemonic cases, the productivity edge started

to narrow steadily as the dominant technological leadership of the hegemon was fading.

Table 4.2

Comparative Productivity Levels of British and U.S. Hegemonies

Hegemonic Powers	Relative Productivity			
Britain, 1870	1.63			
Britain, 1890	1.45			
Britain, 1913	1.15			
Britain, 1938	0.92			
United States, 1950	2.77			
United States, 1960	2.28			
United States, 1970	1.72			
United States, 1977	1.45			

Source: (Keohane, 1984: 36)

Similarly, the domination of the American economy in world market and over other states in the core has been clearly rested upon the distinctive characteristic of being the pioneer producer of the most dynamic and profitable goods (electronics, automobiles and high technology weapons) of the age. The United States already built up its massive capital accumulation starting from the last quarter of the nineteenth century. Thanks to such technological authority, the US economy preserved the broad productivity edge until the end of 1960s. The natural result of this innovative weakening has become the relative decline of productivity capacities of its economy at the expense of rising but non-hegemonic core powers. Stated in another manner, the technological, productivity and GNP gaps between the American economy and rest of the core economies have rapidly shrunk. Accordingly, in the 1960s, all of the economies in the core zones, specifically the Western Europe and Japan, gained substantial successes in matching the American productivity levels. (See table 4.3)

One of the most highlighting aspects of world-economy in the post-Second World War years is growing influence of multinational corporations. These multinationals have tremendously powerful economic capability and resources that exceed most of national economies of the states. In Gilpin's words; "the scope of operations and extent of territory over which some multinational corporations range are more expansive geographically than any empire that has ever existed" (Gilpin, 1987: 231-232). MNCs, as the non-state actors, has served the integration of world-economy more rapidly, secured the minimum costs of production and helped the boom of foreign direct investment.

Beginning from 1967/73 period, multinational corporations of non-hegemonic core states have attempted to harshly challenge the US multinationals in terms of productivity and the inevitable consequence of this was the constriction of productivity gap. With the impact of contraction in the world-economy in the early 1970s, the productivity levels of all actors in the core zones have demonstrated a decrease respectively. In other words, the diminishing productivity levels have become the structural phenomena in the global market. The crucial point is that while the American productivity percentages have fallen more rapidly, Japan and Europe have affected less seriously from the crisis in the world-economy than that of the American economy. Inevitably, in Maddison's words, "in 1990s, [core states'] labor productivity level was 82 per cent of that in the USA, compared with 44 per cent in 1950" (Maddison, 2002: 193).

<sup>&</sup>lt;sup>28</sup> In Gilpin's term; "Multinational Corporation is a firm that owns and manages economic units in two or more countries". See, Gilpin, 1975, p.231

Table 4.3

Comparative Productivity Levels of Three Actors in the Core of World-Economy

Economic Actors in the Core	1960-73	1973-79
The United States	2,8	0,9
The European Community (EU)	4,9	2,9
Britain	4,0	0,1
West Germany	5,4	5,0
Japan	9,9	3,8

Source: (Gill and Law, 1991: 339)

The last point needed to be mentioned is the slowing growth rates of the hegemonic actors in the world-economy and accordingly their changing position in the world total GDP. The fading position of the both hegemonic powers in the world market can be analyzed in a comparative perspective through looking at the growth rates of their domestic economy and shifting shares of the British and American total production in world-economy relative to those of other core economies. In other words, not only the comparison of hegemonic period's growth rates with that of declining period but also the position of the hegemonic power compared to rising core powers is compulsory to put our study on a defendable foundation.

Table 4.4

Gross Domestic Product (GDP): United States, Britain and Germany (1970 United States Prices)

Country	1870	1913	
Britain (hegemonic actor)			
GDP- (billions)	\$ 3.036	\$ 6.808	
GDP- per capita	\$ 972	\$ 1491	
United States (challenger)			
GDP- (billions)	\$ 3.050	\$ 17.628	
GDP- per capita	\$ 764	\$ 1813	
Germany (challenger)			
GDP- (billions)	\$ 2.099	\$ 7.184	
GDP- per capita	\$ 585	\$ 1073	

Source: (Lairson and Skidmore,1993: 44)

As mentioned frequently in this section, the technological backwardness of the British industry promoted other core states (particularly Germany and the United States) to match firstly and surpass later the English economy. In the 1850s, the England was producing nearly half of the world total products and the consumption of half of the world's total coal, iron and lignite resources was being used by the British economy. Around 1870s, While Britain total proportion in world-production dropped to 32 %, the shares of two leading challengers to the British hegemony began to enlarge speedily; 23 % for the United States and 13 % for Germany. This deterioration lasted in the coming decades. At the end of the century, the British share was 20 %, the US was 30 % and Germany's was 17 %. Most remarkably, on the eve the World War I, the British economy placed on the third rank in the world-production market. By 1913, Britain's share dropped to 14 % and in very contrast; the American share doubled that of total British output (Lairson and Skidmore, 1993: 42-43).

Table 4.5

Distribution of World Production, 1870-1913 (as percentages)

Years	Great Britain	United States	Germany	France	Russia
1870	32	23	13	10	4
1881-1885	27	29	14	9	3
1896-1900	20	30	17	7	5
1906-1910	15	35	16	6	5
1913	14	36	16	6	6

Source: (Lairson and Skidmore, 1993: 42)

As understood from the table 1.1, the British supremacy entered into the disintegration period starting from the last quarter of the nineteenth century. At this point, it was interesting that the German<sup>29</sup> and American economies challenged the British in the most dynamic and most successful industries on which England had already established a hegemonic position since the first quarter of the nineteenth

<sup>&</sup>lt;sup>29</sup> German state which completed its political unity in early 1870s and the U.S. which was increasing its economic leverage not only in its neighborhood but also in the continental Europe attempted to foster their economies with an apparatus of military-industrial complex and both promoted and supported their enterprises in the course of already 'underway industrialization'.

century. Britain started to lose this uncontested weight in banking, railways and heavy industrial sectors in its decline process. Both powers' dominance went further ahead that of Britain in the post-1870 years (Arrighi, Barr and Hisaeda, 1999: 125). In details, the growth of British economy was 1 % averagely in the decline period from 1960s to 1914. Although there were the exceptional years when Britain grew faster than 1 % (such as between 1882 and 1899), the overall expansion of its economic capacity was much slower than the two rising core powers (Floud, 1994: 4). As occurred in the American hegemonic situation, in 1870-1914 era, the economy carried on to extend its capacity, yet, this growth was emerging at a declining rate relative to other core powers.

Table 4.6

Comparative growth of GDP in decline period of British hegemony (1873-1913)

(As average annual percentage)

Years	Britain	United States	Germany	France	Japan
1873-99	1,2	1,9	1,5	1,3	1,1
1899-1913	0,5	1,3	1,5	1,6	1,8

Source: (Floud, 1994: 16)

The British economy scored rather limited growth rates than earlier decades. Early from 1870s, in terms of GDP growth rates, the British economy scored 1,9 % per annum, this reverse towards the rapid economic decline aggravated in 1880s by diminishing 1,7 % per annum (Shilts, 1994: 416-417) and dramatically starting from 1899, it fell behind all of its competitors in the core by retreating into 0,5 % per annum. In a sense, due to the technological unproductive period beginning from 1870s, Britain can be labeled as '*late industrializer*' (Pollard, 1994: 65) in the so-called Second Industrial Revolution based on chemicals, electricity and steel.<sup>30</sup>

Similarly, in the 1950s, the half of the world total production of steel was coming from the U.S. In the 1970s, this ratio dropped to one-fifth, see Goldfrank, 1983, p.147.

<sup>&</sup>lt;sup>30</sup> For instance, by 1913, Britain was producing 7,7 millions of ton steel. On the other side, the total steel productions of the U.S. was 31,8 and of Germany 17,6 millions of ton, see, Lairson and Skidmore, 1993, p.43.

Table 4.7

Comparative Gross Domestic Product (1945-2005)

Years	1945	1960	1973	1979	1985	1995	2005
United States							
GDP (billions)	\$ 1646	\$ 2022	\$ 3519	\$ 4161	\$ 4797	\$ 6300	\$ 11750
Share of US GDP in world GDP	35%	23%	21%	20,8%	20%	20%	19,8%
European Union							
GDP (billions)	NA	\$ 1254	\$ 3060	\$ 3609	\$ 4568	\$ 6047	\$ 11600
Share of EU GDP in total GDP	NA	14%	19%	18%	19%	19%	21%
Japan							
GDP (billions)	\$ 98	\$ 364	\$ 1197	\$ 1477	\$ 1839	\$ 2500	\$ 3750
Share of Japanese GDP in world GDP	1%	4%	7%	8%	8%	8%	7%
China							
GDP (billions)	\$ 335	\$ 585	\$ 1046	\$ 1375	\$ 2189	\$ 2600	\$ 7262
Share of Chinese GDP in world GDP	6%	6%	6%	7%	9%	8%	13%

Sources: (Maddison, 1994: 181-185 and Maddison, The World Economy, 1950-2001: 233)

In the same way, for the American hegemony two main competitors were the Western Europe and Japan in the 1970s. Yet, it can be strongly argued that the 1990s witnessed the emergence of more important and assertive challenger to the U.S. in the world-economy. With the impressive rise of Chinese economy, the U.S. has been more seriously defied in terms of productivity, costs of production and shares in the

global market. The causes of American decline are not completely different than the British case. The disappearance of technological advantages, the loss of market domination and the spectacular growth rates caught up by the challenger core powers have brought about the corrosion of the American economic hegemony in the capitalist world-economy.

Table 4.8

Comparative Growth Rates of U.S, EU, Japan and China (1960-2000s)

(As average annual percentage)

	1960-67	1968-73	1973-79	1979-2000s
United States	4.5	3.3	2.6	2
European Community (the EU currently)	4.4	4.8	2.5	2.4
Japan	10.5	8.8	3.6	2.8
China	1.6	6.1	4	8.1

Sources: (Maddison, 1994: 183 and 255; Ashworth, 1987: 314; OECD Factbook, 2005)

As expected, the American decline has been inevitable because of catching up of other states in the core, semi-periphery and periphery. Especially starting from late 1960s, the US share of world product has started to wane. Currently it is the reality that the American economy is no longer so far ahead of many countries in terms of GDP. Among the economic growth rates scored by four actors in the years from 1979 to 2000s, the worst performance belongs to the US economy with 2 %. According to the Table 4.7, while the gap between the American and Chinese GDPs was approximately four times in 1960 (the US: \$ 2000 billions and China: \$ 585 billions), today the US GDP is only % 50 bigger than that of Chinese GDP (the U.S.: \$11750 billions and China: \$7262 billions). In 1960s, the US economy was about two times larger than that of Western Europe. Yet, now the EU economy has matched that of the US economy. If the present trends in the Chinese economy continue in the coming decade, the gap between these two economies will be able to shrink dramatically.

Another dimension that enables us to compare the British and American declines is the situation of multinational firms. For two centuries, the joint-stock companies<sup>31</sup> have played accumulative role in the world-economy (Ikeda, 1996: 39). After the downward period of British hegemony, the German and American companies initiated to assume a leading investor position by extending scale and scope of their activities as opposed to the British. Following this economic progress, the English joint-stock companies faced serious challenges by American and German firms especially in the continental Europe, Latin America and Africa. As a result, opening from 1870s, considerable part of the industrial activities started to be performed well the functions and activities formerly carried out by the British firms.

As to the American hegemony, the overall outlook holds the parallel similarities with that of British case. Precisely, to a certain extent, not only the American dominance in the world-system but also the spectacular growth ratios of capitalist economy has been rested upon Transnational Corporations (TNCs).<sup>32</sup> As Satoshi Ikeda points out, "the growth and allocation of the productive capacity and activity in the world-economy was the result of the activities precisely of those enterprises –research & development (R&D), production, transportation, distribution and financing" (Ikeda, 1996: 39). As the natural outcome of being the leading economy in the post-World War II epoch, the home country of great majority of TNCs was the United States. However, as the non-American TNCs have enhanced their capacity, power and economic leverages against the US firms, 1967/73 years marked the beginning of the American decline in terms of TNCs superiority. In truth, even by analyzing the changing numbers and efficiencies of the US corporations' in

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It is a special form of business organization that has a common capital named as the stock. The partners of the company are called the shareholders and they reach regular shares thanks to their contributions to the stock. The joint-stock companies emerged and rapidly developed in order to meet the increasing need for the capital of overseas trading companies. See, http://www.google.com.tr/search?hl=tr&lr=&defl=en&q=define:Joint-stock+company&sa=X&oi=glossary\_definition&ct=title

<sup>&</sup>lt;sup>32</sup> For instance, as Samuel Humes points out "by 1989, the total sales [more than \$ 3.800 billion] generated by the 50 largest industrial corporations significantly contributed to the total GNP [less than \$ 18.000 billion] of the countries of the world. Furthermore, the combined assets of the top 300 firms now make up roughly a quarter of production assets in the world", quoted from Ikeda, 1996, pp.48-49.

the world industrial production, we can attain enlightening clues in order to well describe the American decline in production. (See table 4.9.)

Table 4.9

Nationalities of the World Top 50 Industrial Companies

Home Countries	1956	1960	1970	1980	1990	2004
USA	42	42	32	23	16	15
Europe	8	8	14	19	22	16
Germany	1	2	6	7	7	6
France	-	-	-	4	5	4
UK	4	2	3	2	2	2
Italy	-	-	2	2	3	2
UK/Netherlands	2	2	2	2	2	1
Switzerland	1	1	1	1	2	1
Netherlands	-	1	1	1	1	1
Japan	1	-	4	5	11	16

Sources: (Ikeda, 1996: 74 and Global 500, http://www.japan-zone.com/modern/global500.shtml)

Explaining the American hegemony in production is highly related to the role of TNCs in dominating world industrial production. The complex network of industrial distribution of the world's largest 50 firms justifies the argument that American production capacity in world industrial system is diminishing and that the world production is taking a pluralist shape with the rise of competition among actors. As can be read from the table, by 1956, a golden year of American hegemony, 42 of the top 50 firms located in this hegemonic country. At the same year, the remaining 8 corporations belonged to the Western Europe. These figures began to steadily wane in the last quarter of the 1960s. A plural structure in production system has come into the scene as the result of growing powers of European and Japanese TNCs. The most striking point in this change process of hierarchy among TNCs has originated from the rise of Japanese firms since 1970s. Until these years, the most powerful challengers to the American TNCs have been the Europeans. However,

specifically, in the 1980s the Japanese multinational companies started to develop their capability to compete with the US multinationals in the global market. Expect for some fluctuations changing from year to year, the improvement of non-American firms have gone in tandem with the considerable decrease in the number of US firms. For instance,

Non-US companies dominated major industries, accounting for nine of the ten largest electronics and electrical equipment manufacturers; eight of the ten largest motor vehicles makers and electric and gas utilities; seven of the ten largest petroleum refiners; six of the ten telecommunications companies; five of the ten pharmaceutical firms; four of six chemical producers; four of seven airlines. Of the twenty-five largest banks in the world, nineteen were non-US banks, although the two largest were Citigroup and Bank of America (Du Boff, 2003: 2).

The rise of non-American firms has definitely demonstrated its influential impact in the production capability of the US economy. To support our argument, it is beneficial to make a quotation from Goldfrank,

In the 1950s, the United States produced half of the world's steel; by the end of 1970s; it made about one-fifth. In the last few years, Japan has surpassed the United States in the production of automobiles, the symbol of US hegemony in its glory days. In electronics and computers, Japan has become a formidable competitor; in aircraft production, Western Europe made great strikes.<sup>33</sup>

On the other hand, such contraction in the American status in the world-industrial production does not refer to the presence of a situation in which the US economy totally vanished in terms of its lead in technological areas and its TNS have lost completely its competition capability with those rising firms (Ikeda, 1996: 38-39). Yet, by 2004, the US multinationals could not reproduce their previous leverage in the world production system and there has emerged a *Tripolar* regional structure, the so-called Triad of United States, Europe and East Asia.

In sum, the British and American downwards in the world production arose from the same factors; the relative regression in the innovativeness, its reflection in

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<sup>&</sup>lt;sup>33</sup> The British counterpart of American automobiles in the nineteenth century was the steel industry, see, Goldfrank, 1983, p.147.

the productivity levels and following contraction in shares of both hegemons in the global market. The basic economic situation currently implies the multicentricity in which the hegemonic economy has already vanished and the production system has been taking a non-hegemonic form as the same in the Britain's situation. However, in contrast to the British, the US trajectory has not completed yet. It is still in transition. Therefore, it does not refer to the argument that the American mass production will be unable to recover itself anymore. Yet, it is not logical to claim that the United States' productivity and position in the global market go on to keep its all respects since the post-WW II epoch. Hence, in accordance with our formulation, the subsequent step in the comparison of the British and US hegemonic downturns is to look at the outlook of commerce. Now, let us turn to the commercial analogies.

## **4.2** Comparative Analysis in Commerce

The first stage in the formation of hegemonic economy is the gaining spectacular productivity levels that enable the dominant core power to obtain price advantages relative to other economies. The second stage is the direct consequence of this domination in the production of most profitable goods of the era. With the acquirement of unquestioned status in the production of mass consumption goods, the hegemonic economy initiates to penetrate into the world trade. Because it is the most cost-efficient producer among core economies, the hegemonic core country seeks to control the global market in its very benefits. Therefore, it is the phase in which "commercial hegemony" is established. At this point, the notion of "commercial hegemony", in the words of Thomas R. Shannon, refers to "a situation in which one country carries on the largest volume of core international trade, and its transportation and trading companies provide the largest volume of services (for example, shipping, commercial insurance, and wholesaling)" (Shannon, 1989: 120).

As the time passed, late-comer core economies start to score high growth rates vis-à-vis the hegemonic actor and thanks to the factor of "catching up", the unchallenged status of the hegemon in terms of productivity disappears rapidly. At

the same time, the challenger actors firstly search for regaining their home markets by applying "protectionist" measures in addition to the installation of new production techniques (Chase-Dunn, 1993: 175). Subsequently, the loss of productivity leadership and protectionism causes the loss of market advantages and the decrease of profits earned from the commerce for the hegemonic economy.

In both the British and American situations, the expansion of world commerce has been the stimulus of entire growth of capitalist economy. The world-economy in the periods between 1815-1873 and 1945-1967/73 characterizes the "economic prosperity phase" of development for the entire zones of the world-system. The common feature of both eras was the implementation of free trade ideology. There is a general assumption that the hegemonic states are inclined to choose the ideology of free trade due to having a considerable comparative advantage in the production of the most sophisticated and capital-intensive goods of the time. In this direction, by the time of real hegemony, there is a persistent demand for the free trade on the global scale.

Openness corresponds to hegemonic maturity because the leading power is in a position to use its military and economic capabilities to demand that other core states minimize their restrictive policies. The hegemonic power wants openness because it enjoys a competitive advantage in production, commerce and finance. The more other countries' markets are open to its capitalists, the better off they are. Openness provides them with export market and investment opportunities and increases overall commercial activities. Foreign competition represents little threat to the hegemonic power's own domestic market. That hegemonic maturity corresponds to a period of expanding markets..., when all core firms can enjoy economic expansion and high profits, makes the policy generally palatable to all core states (Shannon, 1989: 125-126).

At this point, there is one difference between the British and US cases on the performance of free trade. That is to say, to claim that the trade regimes in Britain and U.S. were completely parallel to each other is far from the rationality. Although the support for free trade was quite strong and institutionalized in the home market of Britain, the same coordination and institutionalization did never exist on the global

scale. The limitedness of institutionalization finally gave rise to the erosion of the system after 1873. In the American situation, the picture was different. Due to the very existence of GATT system, which has decided the widely accepted rules and duties for the setting of free trade among capitalist economies, a coordinated and institutionalized structure came into existence with the gravity of U.S. in the postwar era (Mjoset, 1990: 31).

It is also certain that as protectionist tendencies increase elsewhere, the benefits originating from the free flow of manufactured goods begin to slow down. In retrospect, "...Free trade was one of the established dogmas of Victorian Britain and 'was believed' responsible for their 'prior eminence'" (Goldfrank, 1983: 149).

Some British counterparts [of German industrialists] did organize a Fair Trade League which sought protection within the context of the Empire, ...most industrialists stayed wit free trade ...Despite Canadian and Australian tariff barriers, the rest of the Empire sustained a stable demand for British goods; so did British overseas investment, commercial ties, and prestige. International banking and shipping provided important sources of revenue which helped to conceal the decline in sales. Bankers and shippers also constituted a massive lobby in favor of an open international economy (Goldfrank, 1983: 149-150).

The British choice for free trade served to connect the almost all zones of the world market to Britain. By means of the unrestricted flows of goods through which the British industrialists established a clear-cut hegemony, Britain's domestic market occupied a position of "marketplace" to attract the payments and surplus of other core and peripheral regions. Until the last quarter of the century, Britain maintained its role of being the strongest defender of free trade. In reality, British statesmen, policy-makers and industrialists never wanted to give up the free trade ideology.

Yet, starting from the late nineteenth century, specifically Germany and Italy espoused a trade strategy based on the protectionist motives. Respectively, nearly all core economies in Europe restricted the free flow of goods and supported the capital accumulation of domestic producers. Protectionism gradually started to become a decisive factor in the continental Europe. To summarize from Polanyi;

The increase in the rhythm and volume of international trade as well as the universal mobilization of land, implied in the mass of transportation of grain and agricultural raw materials, from one part of the planet to another, at a fractional cost...dislocated the lives of dozens of millions in rural Europe...The agrarian crisis and the Great Depression of 1873-1896 had shaken confidence in *economic self-healing*. From now onward the typical institution of market economy could usually be introduced only by if accompanied by protectionist measures, all the more so because since the late 1870s and early 1880s nations were forming themselves into organized units which were apt to suffer grievously from the dislocations involved in the sudden adjustment to the needs of foreign trade or foreign exchanges (Polanyi, 1957: 213-214).

In this regard, the post-Great Depression era witnessed the industrialization of non-hegemonic challenger states, the United States and Germany, and such great leap forward made by two contestant actors forced the world-system to redefine itself. In terms of commercial structure, there emerged a severe competition among three economies (the US, German and British) to extend their shares in the worldmarket. Actually, for the British economy, it was unavoidable that Britain would lose its domination continuing since the post-Vienna order. The maintenance of high growth rates was depended to a large extent on keeping in step with the new wave of industrialization (Floud, 1994: 20), so-called the second era of industrialization. The failure made by the British economy in following the new necessities of the time gave rise to lessening of production volumes in the hegemonic economy. Because the spectacular growth rates which were scored in the British economy since 1815 could only be sustained with adapting the new industries of the second wave of industrialization (for instance electricity, steel and chemicals), it is normal in the long-term that the British economy would lose its comparative preeminence in the international trade. In other words, the disappearance of British dominance in the export markets was the natural consequence of second industrialization in which the American and German economies was expanding as opposed to the British.

<sup>&</sup>lt;sup>34</sup> Emphasis added.

Without doubt, the downturn periods of hegemonic countries coincides with the retreat into the protectionism and closeness in not only the core zone of the world-economy but also peripheral areas. By the time the British-centered world-system started to wane in the late nineteenth century, England responded to such trend toward this economic autarchy with the revision of its economic policies. Since the British economy to the great extent was rested upon the revenues coming from the commercial activities, it selected the continuation of liberal commercial policies. However, such strategic decision made by the British economy elites was in vain and not successful in reversing the other core states (especially the U.S. and Germany) to *laisez faire* principles.

Similarly, with the rise of European powers and Japan starting from late 1960s, the damaging impacts of open commercial relations on the US economy forced the American industrialists to put pressure on the political leaders to take some measures for the protection of home markets. The result was the occurrence of New Protectionism. Rather than the high tariffs of "old protectionism", the New Protectionism is the creation of non-tariff barriers in which commercial quotas, voluntary export restraints and orderly market arrangements are put into practice in order to diminish the negative impacts of Japanese, Chinese and European goods in the American home market (Gilpin, 2002: 167-168 and Gilpin, 1987: 204). The interesting point here is that the U.S. has attempted to erect such non-tariff barriers for the industries in which the American economy had considerable comparative advantages until 1967/73 period. These sectors have been the automobile, steel, computer and machinery which are produced very efficiently by the EU, Japan and China since the relative decline of American economy. Gilpin reports that since the 1970s, nearly one-third of the American and European markets in the production of industrial goods have been protecting with the non-tariff barriers (Gilpin, 1987: 204-205).

As both hegemons entered into the downward periods, the loss of market shares in the world trade became an expected development. Definitely, such contraction in advantageous positions of both actors was direct outcome of erosion of cost competitiveness and the insufficient efforts to adapt the new production structures. As a consequence, both Britain and the U.S. pursued a low profile economic development in their decline periods.

Table 4.10
Economic Comparison of the U.S. and Britain, 1870-1929

		United States	Britain			
Year	Proportion of World Trade	Proportion of Industrial Output	Relative Productivity	Proportion of World Trade	Proportion of Industrial Output	Relative Productivity
1870	8.8	23	1.22	24	32	1.63
1913	11.1	36	1.56	14.1	14	1.15
1929	13.9	42	1.72	13.3	9	1.04

Sources: (Lake, 1983: 525 and Walter, 1991: 120)

Although the commercial structure constituted the basic underpinning of the British hegemony throughout nearly a century, it is very clear in the table 4.10. that Britain started to lose its dominant position in the 1870s as the other challenger core powers increased their economic power vis-à-vis the British. While by 1870, the British economy had the largest share in the total world trade with %24, nearly a quarter of the global market, by 1913 this ratio dropped to the %14,1. When analyzed in details, the links between the productivity, total industrial output and the shares in the global market can be easily noticed. The inevitable decrease in the productivity levels found its expression in the decline of industrial production. Such contraction in the production domain firstly reflected in the world trade with the lessening of market share of British economy. On the other side, the U.S. as the principal challenger to Britain in those years, as a result of improvement of productivity levels, firstly increased its industrial output then increased its market shares in the world production.

Table 4.11
Comparative Shares of British and U.S. Hegemonies in World Trade

Hegemonic Powers	Shares in World Trade
Britain, 1780	12%
Britain, 1820	27%
Britain, 1860	25%
Britain, 1880	23%
Britain, 1913	14,1%
United States, 1938	10%
United States, 1950	18,4%
United States, 1970	14,4%
United States, 1990	13%
United States, 2004	12%

Sources: (Lairson and Skidmore, 1993: 63; Keohane, 1984: 36 and Nye, 1990: 56)

In the U.S. situation, the American economy has been losing its dominant position in the world trade since the 1970s. The decrease of productivity and the rise of non-hegemonic core (such as West Germany and Japan) and semiperipheral powers (such as China, India, South Korea and Brazil) to compete with the American economy have become the factors undermining the very bases of US hegemonic position in the world-economy. Table 4.11 exhibits the evidences of the diminishing shares in the world trade since 1970s. Although the American economy has never been the trade-centric as the British economy in the nineteenth century, due to the reasons explained very detailed in the preceding section, its trading superiority has been relatively waning since the 1970s. The most peculiar indication of this contraction in US trade position is viewed in the redistribution of export markets (See table 4.12).

Table 4.12

Proportion of World Exports and the Trend of US Hegemony (as billion dollars)

Years	1960	World Share%	1965	World Share%	1972	World Share%	1990	World Share%	2004	World Share%
World	114.6		167.1		376.8		2694		8819	
U.S.	20.6	18.0	27.5	16.5	44.1	13.9	322	11	795	9,6
EU*	NA		NA		NA		NA		1109	12
Japan	4.1	3.6	8.5	5.1	19.3	6.8	270	10	538	6
China	NA		NA		NA		52	1	583	6

<sup>\*</sup> External exports, excluding intra-EU trade

NA: Not Available

Sources: (Lairson and Skidmore, 1993: 85 and CIA World Factbook 2005)

While in 1960 the US share in total world exports was %18, the leading exporter to the global market, currently this share dropped to %9, the EU has already exceeded this volume by raising the first rank in the world export market. Surprisingly and too rapidly, the Chinese economy has emerged as the chief competitor for both the American and European positions. Similar to the trajectory of British hegemony, the two contestant economies for the U.S. are the EU and China. In spite of its extraordinary improvement in the 1970s and 1980s, Japan has remained the behind of those actors in continuing the hegemonic race.

As a reflection of this contraction in the American economy, its total imports have already surpassed its exports. To make a comparison, in 1990 the US total export was \$ 322 billion and its import was \$ 440 billion. When we come to 2004, the gap between export and import has massively widened by increasing its import to \$ 1476 billion. The same year, the American export realized as \$ 795 billion (CIA World Factbook 1990 and 2005). Under these negative circumstances, the trade deficits can only be offset by the expansion of financial services and sales abroad. This movement of the US economy has brought together with the compulsory switch of the U.S. from production and commerce to the financial services. However, as Du

Boff mentions, "U.S. merchandise deficit has become too big to be paid for by services and investments" (Du Boff, 2003: 3).

To summarize, the interesting clue in explaining these downturns in the British and American commercial positions can be found in the steady decline of productivity and subsequently in the total industrial output. The contraction in these two crucial domains (i.e. productivity and industrial output) reflected their diminishing shares in the world commerce. To formulize, firstly, the matching of technology among core economies, secondly its impact on the levels of productivity, thirdly the redistribution of industrial production rates and as the fourth but not last step the disappearance of the hegemonic economy's commercial superiority in world trade relations represent the phases of hegemonic decline. The last domain disappearing during the hegemonic declines is the financial superiority. Now I focus on this subject.

## **4.3 Comparative Analysis in Finance**

As shown in figure 2.1 (see p.42), hegemonic transitions result in the occurrence of three main trends in the world-system; firstly, there emerges the increasing competition among core power for the world hegemony. Secondly, the political and economic impact of declining hegemon on the interstate system is inevitable. Finally, a substantial financial expansion of the hegemonic power comes into reality as the hegemon declines.

Seen in historical perspective, the increasing competition during the hegemonic transition periods gives rise to the stagnation in the production and commercial activities of the hegemonic country to the large decree. For the hegemon, this material contraction in the volumes of production and commerce goes in tandem with the expansion of financial services. In other words, the hegemonic transition period implies a period in which a specific shift exists in the economical actions of the dominant actor. As a response to the diminishing productivity levels in the

domestic economy and hence the contraction in the profitability of trade for the hegemonic actor, the business and ruling elites do face the reality to move towards the *financialization*. In this direction,

Financial hegemony exists when one country is the largest source of capital for international investment and the largest provider of financial services such as banking. As a consequence, the financial industry of the hegemonic country dominates the provision of international credit, the setting of interest rates, and the setting of currency exchange rates, and the hegemonic state's currency is the main medium of exchange employed in international trade and finance (Shannon, 1989: 120-121).

As understood from the definition, the hegemonic economy is centered on finance as well as production and commerce in its peak years. Yet, it must be noted that when the hegemonic core power enters into downward period, the bulk of domestic economy begins to shift its activities to the provision of financial services on the global scale. The focus point of the financialization of the hegemonic economy is a conversion from the production and commerce-centric economic structure to the finance-centric economic structure. During this transition period, the production-centric economy of hegemon indicates a slowdown. The hegemonic economy, which has accumulated a huge amount of capital thanks to uneven economic development, starts to pay more attention to the financial services.

The financial expansions guided by the hegemonic core power are not only the periods of restructuring of world-capitalism but also autumn of hegemonic transitions (Arrighi and Silver, 2001: 261). Yet, the critical paradox is that the hegemonic country unwillingly transforms itself into a finance-centric economy. The principal feature of such restructuring is the occurrence of a *rentier* hegemonic economy. Because the profit-making from production and commerce becomes more difficult, the capital-owners in the hegemonic country are steadily inclined to concentrate on money-earning from the financial manipulations in the phase of hegemonic decline. To put it another way, the declining hegemons gain from the 'hyper development' of profit-making from financial activities during the times in which their comparative advantages in production and commerce were in decline. In

retrospect, the British economy starting from the last quarter of the nineteenth century and currently the US situation assumes many characteristics of the financialization of the hegemonic economy.

The British economy, so-called 'the workshop of the world' and the American economy, so-called 'the center of mass production' faced the economic fact that during their downward periods, thanks to the loss of their dominant positions in the production sphere with catching up non-hegemonic core, both hegemons were forced to switch their economic activities to the realization of financial services. In the case of Britain, the Gold Standard constituted the very basis of monetary arrangements not only in the home economy but also in the continental Europe. Any exceptional movement of any national currency toward the out of balance was being normalized into equilibrium by the smooth operation of the system. The underpinning of the system was based on the sterling. In a sense, the pre-World War I era was a gold sterling standard (Frieden and Lake, 1995: 230).

The classical gold standard was a sterling standard – hegemonic regime- in the sense that Britain not only dominated the international monetary order, establishing and maintaining the prevailing rules of the game, but also gave monetary relations whatever degree of inherent stability they possessed... It did not regard itself as a responsible for global monetary stabilization or as money manager of the world. Yet, this is precisely the responsibility that was thrust upon it in practice... The widespread international use of sterling and close links between the larger financial markets in London and smaller national financial markets elsewhere inevitably endowed Britain with the power to guide the world's monetary policy (Walter, 1991: 86).

This network of monetary order was controlled to the great extent by the British banks and financial brokers, which extracted enormous amount of capital from the sales of manufactured goods since the beginning of industrial revolution and which was canalizing again those capital into the other core zones and developing periphery. As the British economy goes into the slowdown period, the impact of the financial elites (namely the banks and other spectaculars) started to raise step by step in the home economy. Such transition was obviously the outcome of contraction and backwardness of production compared to other core economies,

specifically the German and American economies. Stated in another manner, the British economy was converting itself into the last phase of hegemonic decline. The disappearance of production and commercial supremacy forced the British to give an attention to the financial services as a last resort to remedy the deteriorating economic position.

In terms of financial outlook of the British hegemony, the pre-1870 and post-1870 periods indicate comprehensive differences. Prior to 1870, the productivity levels of the British economy were the highest in the world market. Hence, the enormous volumes of the accumulated capital were transferring to the buildup of the domestic economy. These investments took the form of the construction of railways and towns and the improvement of technological infrastructure. Only the limited amounts of this surplus capital went into the commercial and banking investments and monetary loans to the foreign governments in the core and principally in the periphery. Yet, the post-1870 era shows completely different picture regarding the financial-orientation of the British hegemonic economy. Due to the decreasing productivity levels and profits coming from the sales of most sophisticated goods of the time, the British economy began to experience a severe contraction. Under these circumstances, it was more rational for the British capital-holders to invest in the core and mostly in peripheral zones of the capitalist world-economy. Following this shift in the nature of economy, large amounts of capital and the use of technology started to flow the less-developed countries (for instance to Argentina, South Africa, Australia, India and even to the U.S.) (Gilpin,1975: 85-86). That is to say, as the British hegemony waned negatively, the nature of the economy shifted from the production and commercial activities to the financial activities.

The magnitude of this outflow was enormous. Between 1870 and 1913, Britain's foreign investment increased approximately 250 percent. In 1913, it amounted to 4 billion sterling; it absorbed more than half of the total of British savings. Between 4 and 9 percent of Britain's net national income was gong abroad. Nearly, one-half of British assets, other than land, were overseas at the beginning of World War I (Gilpin, 1975; 86).

The main ingredient causing the boom of foreign investment was the reduction of profitability in the home market. Most remarkably, the foreign investments were not only the tangible investments (such as the construction of factories or railways) but also bonds and funds in finance and banking. In this connection, the City of London assumed the primary role in exporting the capital. The City's financier elites directed at exporting the capital rather than recovering and financing the industrial development at home (Gilpin, 1975: 87). In general, the Great Depression of 1873-1896, which gave rise to the protectionism, deterioration of commercial position of Britain, technological backwardness and lack of entrepreneurship to invest at the national economy were responsible for the orientation from *productionism* to the financialization. As Gilpin remarks, "foreign investment after 1873 was initially the result rather than the cause of a declining British core" (Gilpin, 1975: 87).

In the same way, the Bretton Woods System, which constituted the operation center of the capitalist economy for three decades, was rested upon the American dollar that was tied to gold at the rate of \$ 35 an ounce. As the nature of being hegemonic economy, other Western currencies were connected to the dollar at a fixed rate. In fact,

This was a modified version of pre-1914 gold-standard with the dollar at its center rather than sterling. As in the *Pax Britannica*, massive flows of capital from the leading nation –Great Britain the first instance, the United States in the second- were crucial to the proper functioning of the mechanism (Frieden and Lake, 1995: 231).

However, there was a small difference between two cases that the British financial network was exporting its capital abroad in the name of private loans. Whereas, the U.S. has exported the same capital in the form of foreign direct investment. But, after 1967/73 period the international finance or finance-capital (haute finance in the British situation) has started to gain a noticeable importance and these specific years marked the shift to the financialization of the hegemonic economy for the U.S.

As mentioned earlier, the period from 1967 to 1973 constituted the turning point in the fate of American hegemony. According to Arrighi,

The coming crisis of the US regime was signaled between 1968 and 1973 in three distinct and closely related spheres. Militarily, the US army got into ever more serious troubles in Vietnam; financially, the US Federal Reserve found it difficult and then impossible to preserve the mode of production and regulation of world money established at Bretton-Woods; and ideologically, the US government's anti-communist crusade began losing legitimacy both at home and abroad. The crisis deteriorated quickly, and by 1973 the US government had retreated on all fronts (Arrighi, 1994: 300-301).

Analogous to the British situation in the late nineteenth century, international banking activities and financial transactions sharply expanded in this transition period of the US hegemony. The highlighting point in this expansion in the financial dynamics of the American economy is the same with the Britain's case. In addition to the decreasing productivity levels in the domestic economy, the oil crisis motivated the US economic elites to increase compulsorily the financial activities in the hegemonic economy. The finance-capital has begun to gain a crucial importance as the banks located in the U.S. (re)circulated the petrodollars to the economies of periphery and semi-periphery. In Wallerstein's words,

...[T]he structural consequence was a considerable shift of investment from productive activities to the financial sphere in the search for profit. This led to the well-documented series of financial takeovers of major corporations and the flourishing of junk bonds, made all the more possible by the weakened profit position of major corporations (Wallerstein, 1996a: 213).

The loss of superiority in the production and commerce has given rise to the orientation towards the banking and financing in order to rebalance its hegemonic situation. The demise of fixed exchange rates and the passage to floating exchange rates has paved the way for the rise of finance-capital that works in nature as opposed to the control of state authority. In this regard, Satoshi Ikeda views the end of Bretton

Woods order as an undermining factor for the US hegemony and the most notably as wounding impact on the unquestioned status of the American dollar.

Once the West European and Japan stopped accepting depreciating US dollars at face value, the price of dollar was left to be decided by the market, and the US economy as a whole was stripped of the privilege of running a trade deficit without accumulating debt. Thus, in the 1980s, the dollar's role in the international finance changed from one of absolute dominance to the one of merely relative primacy. For example, only 39.1 per cent of outstanding international bonds at the end of 1991 were issued in U.S. dollars; and in terms of net issue, the dollar share was 30.0 per cent in 1990 and only 22.4 per cent in 1991 (Ikeda, 1996: 65).

The new system of floating exchange rates implies an economic system in which the value of most currencies is determined under the market circumstances and by the private sector and money-holders. In the same way of Britain, as the American economy lost its previous productivity superiority vis-à-vis the rising competitors, finance-capital has become the pivotal place from which the conduct of the word-economy is determined (Frieden and Lake, 1995: 298). Specifically, in the 1980s, global financial activities have nurtured at a more and more rapid pace in the world-economy in contrast to the stagnation in the volumes of global output and trade.

Definitely, the center of those financial transactions was the American economy. From a broader point of view, the financialization of the hegemonic economy constitutes "a new, latest and highest phase/stage of the hegemonic decline". In this direction, Arrighi describes the occurrence of finance-oriented economies by stressing the closure of high profits being earned from the production and commerce since the post-war era; "Following a wave of growth in commercial capitalism and the accumulation of capital on a scale beyond the normal channels for investment, finance capitalism was already in a position to take over and dominate...all the activities of the business world" (Arrighi and Silver, 2001: 259). Stated in another manner,

Financial expansions concern us here exclusively as moments of structural transformation of the modern system of sovereign national states. They have been an integral aspect of hegemonic crisis and the eventual transformation of these crises into hegemonic breakdowns (Arrighi and Silver, 1999: 32).

It can be argued that the massive outflow of capital-surplus to abroad has been used as an influential means to finance deficits of both hegemonic economies. Financial earnings were crucial to British and American hegemonic roles as the freetrading and capital-exporting countries. For instance, it is common to the main American multinationals that "more of their output is produced outside the territorial United States than is produced inside it" (Strange, 1994: 371). Statistically, 80 per cent of the US multinationals' revenues originated from overseas and only remaining 20 per cent were exported from the United States (Strange, 1994: 371) It is relevant for both hegemonic situations that capital invested abroad, overseas earnings and financial profits in the money markets were used to the great degree in order to cover weaknesses in their economic position. Yet, there is a vital point in this wave of financialization. As both hegemons have become more finance-centric, their economies and accordingly the world-economy have become more and more vulnerable due to the speculative transactions made by capital-owners. It has begun to be said that the free and unrestricted international trade benefit the global economy with reference to the British and US hegemonies; free movement of capital has not yet exhibited its benefits for the national economies.

In both situations, except for periodic and irregular renewals, the erosion in values of sterling and dollar as the hegemonic currencies was the one of the basic features of the hegemonic transitions toward the financialization. While in the Britain's system, the American dollar increased its gravity in the world financial activities at the expense of sterling; the US hegemony has witnessed the rise of Yen in the late 1970s and Euro in the 2000s as two strong alternative currencies against the dollar. As a reflection of such alterations occurring in the financial structure, in 1981-1995 period, the enormous changes in the reserve currencies were observed. The share of European currencies rose from 13 to 37% in the world's central banks

and the US share diminished from 67 % to 40%. At present, merely 50 percent of the reserves of world's central banks were held in dollar. However, this ratio was 76 percent in prior to the start of hegemonic decline (Du Boff, 2003: 2-3).

The most significant aspect of 1970s is the transformation of American economic base into a provider of global financial services. The US transition toward the financialization means the increase in the capacity of financial activities for a while at least. As competitive pressures in industrial activities aggravated and as its dominant position in the world commerce waned, the U.S. has begun to more specialized in financial activities. In this orientation, the U.S. has adopted some fiscal and monetary measures and attempted to attract mobile capital from all zones of the world (Arrighi and Silver, 2003: 345-346). The basic consequence of this financial expansion under the US umbrella is the temporary revival of American wealth and power and the delay of hegemonic disintegration.

The primary hegemonic objective is to form a global economic system with a dominant mode of production and structure new international institutions, laws and rules (Xing and Muchie, 2005: 7). However, as the effectiveness of financial aspects has increased (or as the hegemony has been *financialized*) at the expense of production and trade, the United States has undertaken some measures to become the leading designer of new dynamics in the capitalist world-economy. In addition to diminishing levels of productivity and the loss of commercial superiority, the efforts to eliminate capital control (i.e. the deregulation of financial sectors and the liberalization of capital flows), the evolution of American industrialists into banking and financing system and the need to recirculate the money flowing from the oil-producing countries compelled the U.S. to orient toward the financial activities.

In summary, the British financial expansion was accompanied by a major shift at the heart of capitalist-economy from the British Isles to the North America and Germany. As a response to the fading profits in production, Britain chose to substitute the production and commercial activities with the financial services. Subsequently, with the impact of City of London, Britain became the financial center

of the world-economy in a hegemonic transition period. Likewise, the American financial expansion has gone in tandem with the increase of productivity capacities of the East Asian countries, particularly Japan and China. In 1960, total GDP of East Asian countries was only 35 per cent of the North America. Currently, it has already exceeded that of North America thanks to the sharp growth of China, Malaysia, Honk Kong, Taiwan and Singapore. Within this context, the existing replacement of United States with the East Asia under the leadership of China carries considerable analogies with the replacement of British hegemony with the US. As Arrighi concludes, "...the global financial expansion...is the clearest sign that we are in the midst of a hegemonic transition analogous to the Dutch-to-British and British-to-US transitions" (Arrighi and Silver, 2001: 274).

Thus, in all cases, the hegemonic crises and transitions were symbolized with the considerable expansions of financial activities to keep the profits at the steady level. These restructurings in the hegemonic economies give rise to the redistribution of economic spheres. In history, these financial expansions and probable revivals in the hegemonic economies delayed the dissolution of hegemonic positions. Today, with the extension of systemic financial actions, the US hegemonic economy is experiencing a crisis period and it is also the fact that the ongoing system-wide financial expansion under the aegis of US hegemonic economy presents comparative analogies to the earlier hegemonic cases of the Dutch and British.

## **CONCLUSION**

Although capitalism has become dominant and continuous mode of production for five centuries in the world-system, the nineteenth century marked its amazing extension not only in the economic sphere but also in the politics, culture and society of many geographical zones. Capitalist economic relationships creating the ceaseless accumulation of capital shaped the origins of modern world and characterized a cyclical economic system in a major and integrated portion of the globe. The other fundamental characteristic of the world-system is the existence of its distinctive political organization so-called *interstate system*. The basic unit of this political organization is the *sovereign* nation-states rivaling for mounting their relative powers over other actors. Hence, the capitalist mode of production and interstate system are settled in an interactive position in which each is needed for the survival of the other.

The emergence of modern world-system is a concomitant development with the broadening and deepening of capitalist economic relationships into the new zones of the world-economy through the process of *incorporation*. Since the sixteenth century, the interstate system has reproduced itself, but only "actors" has changed in relation to the competition among sovereign nation-states. In this process, it becomes rational to expect that there is a clear-cut connection between the occurrence of hegemonic cycles and the economic and political processes (i.e. the diffusion of capitalism and the stability of interstate structure).

As the cycles of hegemony take place as a parallel development to the rise of capitalism and to the emergence of interstate system, it is usual that the world-system moves from one system to another. In these transitions, as examined throughout the thesis, the formation and persistence of hegemonic position is overtly related to capabilities to form a comparative advantage in leading sectors of the world-economy. In a broad framework, the British and American hegemonic systems were hierarchical structures within which both powers were principal producing nations

with the most efficient adoption of high-technology into the capital-intensive production methods, both were the main suppliers of foreign capital that invests in diverse areas of the world, leading promoters of liberal market rules, servants for expansion of global market, holder of uncontested naval supremacy and safeguards of military balance. The City of London and New York undertook a moderator role in preventing the adverse effects of recurrent payment deficits by supplying fresh capital. Both England and the U.S. utilized from such economic and military preeminence to create a network of alliances that lessened the war considerably among core actors. In both cases of hegemony, Germany, France, Italy, Spain and Low Countries that were either rising or declining in power in the interstate system behaved as the non-hegemonic core contributors of commercial expansion in the world-economy. Basically, they were categorized in a competitive system of nation-states and willingly or unwillingly pursued capitalist policies in nature.

As a general rule, the hegemonic breakdowns refer to overlapping periods with the systemic disorder and the occurrence of disintegrations in the hegemonic power network. To put it another way, the hegemonic decline is much more than a core country's decline. In the British case, over-expanded world-economy conducted by Britain began to stagnate as a result of 1873-1896 crises and thus a competitive and multicentric interstate system came into existence. In other words, the existing political and economic structures began to collapse with the occurrence of systemic chaos and instability. The downturn of British hegemonic power presented an appropriate situation in which two main challengers emerged for succession. These two powers were Germany and the United States that had built up their economies by participating in the *race of industrialization*. This competition process ended with the Thirty Years' War (1914-1945) with which the hegemonic mission was transferred from Britain to the United States.

Analogous to British hegemonic downturn, the U.S. started to lose its hegemonic in the world-economy starting from 1967/73. Today's American downturn economically and hegemonic crisis show parallel points with that of late

nineteenth century British decline. While in the late 19<sup>th</sup> century Germany and the United States emerged as rapidly rising core economies against England's supremacy, currently China, the EU and Japan have assumed the mission of challenger to the American hegemonic order as an outcome of their competitive, stable and occasionally impressive economic expansion since the late 1960s compared to the US economy.

To be sure, although the US economy has been in a visible decline, it is not yet clearly ended. For the foreseeable future, the United States will be able to stay as the most powerful economic, political and military non-hegemonic actor in the world-system, henceforth it will act in a more multicentric, plural and competitive interstate system.

Similar to Britain's hegemonic decline, today's American economy has moved from the position of the world's largest creditor to the world's largest debtor economy. However, dissimilar to the British case, it is still commanding the most sophisticated and effective military power in the worldwide. It is important to be aware of the fact that in the period of full hegemony there is no need to use the military power to supervise the smooth operation of interstate system since every actor in the capitalist bloc recognizes the hegemonic leadership of the dominant actor.

As the hegemonic decline takes place in the interstate system, it is normal to see the increasing tension and politico/military competition. By the time the hegemonic capabilities begin to disappear economically the hegemonic power resorts more often to its military resources to impose its vision on other actors. In other words, the declining hegemonic core power's intention to enforce direct control over the periphery triggers to military tension and conflict. In conclusion, the very use of military supremacy weakens the long-term effectiveness of the hegemon economically and finally undermines itself. In this direction, there are remarkable similarities between the British and US hegemonic downturns. During and after the Cold War period, the deployment of American military forces exhibits the amazing

resemblances to fleet bases and garrisons held by Britain in the 19<sup>th</sup> century. The American policy of restructuring the peripheral Middle East powers reminds Britain's *civilizing mission* as a part of imperialist strategy. Therefore, the occupation of Iraq by the American forces has not only damaged its uncontested military status but also given rise to legitimacy crisis of US world power. The American failure to cope with military and economic problems may serve the further expansion of alternative power resources such as China.

Financial hegemony is the last domain vanishing in the phase of hegemonic downturn. It is certain that in both British and American situations, financial expansion (or *financialization* of the hegemonic economy) results in a temporary delay the eventual collapse of hegemonic order. The current US-based financial orientation of world-economy demonstrates considerable analogies with the 19<sup>th</sup> century's financial expansion of world-economy under the British umbrella. Today's East Asian great leap forward to increase its share in the world market has brought about an economic shift from the North America to this region. Combined with the American decline militarily and economically, China-centered rise of East Asia since the 1980s has clearly signaled the disappearance of old advantages and emphasized that no longer a unique actor has a dominant status over other economies. More importantly, although the downfall of US hegemonic position has not yet brought about the total fading of America's first rank in the world-economy, this decline has succeeded in transforming the fundamental structure of hegemony. Specifically, there has been seen a switch from state-organized and production-based hegemony to the capital-organized and finance-based hegemony. This reorganization in the economic activities means that the world-system is in the midst of systemic change within which concomitant changes have taken place and the hegemonic power undermines itself that prepares a place for the next hegemonic actor.

The destiny of world-system and the candidate power for next hegemonic position have been an important discussion among the Wallerstenian theoreticians in the 2000s. Today, world-system theoreticians emphasize three points regarding the

question of continuing process of hegemonic transition. The first prediction is based on the argument that the U.S. will recover politically itself in the next years due to the absence of any assertive military power. The second is that the Chinese state, which is the strongest candidate for the next hegemony, will pursue more aggressive policies. It is argued that the continuing capital accumulation and well economic position of China will be transformed into the political and military power. The third argument holds that the interstate system and capitalist world-economy will take a more pluralistic picture and the instability and disorder will be more dominant. At present, the United States has still unequalled power in economics, politics and military but it is less autonomous to control and manage the every aspects of world-system. In other words, the golden age of American hegemony has obviously come to an end. It is unclear yet that the U.S. will recover itself politically and economically, China will be the next hegemonic core power or the interstate system will move from non-hegemonic plural structure. Unknown destination of world-system will be shaped in the coming years.

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